Extraordinary Meeting of the Hawke's Bay Regional Council

Date: Wednesday 16 October 2019

Time: 2.00pm

Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

ITEM	SUBJECT	PAGE
1.	Welcome/Apologies/Notices	
2.	Conflict of Interest Declarations	
3.	Confirmation of Minutes of the Extraordinary Regional Council Meeting held on 9 October 2019	
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HAWKE'S BAY REGIONAL COUNCIL

Wednesday 16 October 2019

Item 4

Subject: 2018-19 ANNUAL REPORT ADOPTION

Reason for Report

1. This report presents the Council with the 2018-19 Annual Report for adoption and authorises the signing of the Report.
2. The statutory deadline for the adoption of the Annual Report is four months after balance date, being 30 October 2019.

Background

3. The Regional Council "received and considered" an earlier version of the Annual Report at its meeting on 9 October 2019.
4. In the attached final version, a number of immaterial adjustments have been made to the numbers within the Financial Statements due to finalisation of audit queries. A small number of minor wording changes have also been made to the non-financial information at the request of Audit New Zealand.

Audit clearance

5. At the time of writing all audit queries received to date have been resolved, however, the final audit report has yet to be received from Audit New Zealand. It will be tabled at the Council meeting on 16 October 2019. Staff expect auditors may propose additional changes, which will also be tabled at the Council meeting on 16 October 2019.
6. A qualified audit opinion on Hawke's Bay Regional Investment Company Ltd.'s (HBRIC) group accounts will flow through to the HBRC group accounts. The qualified audit opinion relates to non-disclosure by the Napier Port of 30 June 2019 financial statements due to timing and public disclosure implications for the Initial Public Offering (IPO) listing on the New Zealand Stock Exchange (NZX).

Next steps

7. Subsequent to Council adoption, and in line with Section 98 of the Local Government Act (the Act), the 2018-19 Annual Report will be printed for distribution and published on the Council's website.
8. A summary document of the information contained in the Annual Report is also required under Section 98 of the Act. This does not need to be adopted by Council but is instead authorised by the Chief Executive (as in previous years). Audit New Zealand will complete its audit of the Summary once the full Annual Report has been signed-off. The audit focuses on whether the summary fairly and consistently represents the information regarding the major matters in the full Annual Report. The summary must be made publically available no later than one month from adoption of the full Annual Report.
9. An early version of the graphically designed Annual Report Summary was presented to Council for review at its meeting on 9 October. An updated version will be tabled at the Council meeting on 16 October for information purposes only.

Decision Making Process

10. Council is required to make every decision in accordance with provisions of Part 6, sub-part 1 of the Local Government Act 2002 (the Act). Staff have assessed requirements of the Act in relation to this item and have concluded that as the Annual Report is a statutory report required to be adopted by Council no later than 30 October 2019 under Section 98 of the Act, the other decision making provisions do not apply.

Item 4

Recommendation

That Hawke's Bay Regional Council:

1. Receives the "2018-19 Annual Report Adoption" staff report.
2. Receives the Audit New Zealand audit opinion on the 2018-19 Annual Report.
3. Adopts the audited 2018-19 Annual Report as presented, with any minor editorial corrections as necessary.
4. Authorises the Chair and Chief Executive to sign the 2018-19 Annual Report on behalf of Council.
5. Instructs staff to publish the 2018-19 Annual Report in its final form, within one month of today in accordance with legislative requirements.

Authored by:

Desiree Cull
STRATEGY AND PROJECTS LEADER

Shash Davé
CHIEF FINANCIAL OFFICER

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

⇩**1** 2018-19 Annual Report

Item 4

HAWKES BAY
REGIONAL COUNCIL
TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

2018-19 Annual Report

Attachment 1

HBRC Publication number 5024
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Part 1 - Introduction | Kupu Whakataki

Message from the Chair and Chief Executive

He Kupu nā te Toihau me te Kaiwhakahaere Matua

Kia ora koutou

At the start of 2018-19 we proposed a step-change approach to fix some of the big issues in our environment. Thanks to your support through rates, the last twelve months have been a year of accelerated action for our region.

During the 2018-19 year, the Council and staff worked alongside Napier Port to secure funding for **the port's new wharf** and infrastructure. This put the Regional Council in a strong position to approve Napier Port to proceed to offer shares in 45% of the value of the Port. This active move on the part of the Regional Council delivers on one of our 23 strategic goals and contributes to this region's economic prosperity.

With **370,000 new plants** in the ground this winter, we're ramping up our plan to control erosion and reduce sediment loss from steep land and near waterways.

We also extended the Sustainable Homes programme across the region, and now offer improved access to insulation and venting, solar, double glazing, domestic water storage and septic tanks, and clean heating.

Behind the scenes, we've been working closely with the government on practical changes to **freshwater policy** – we were happy to offer this support as we anticipate it leading to simpler rules and policies for land users that also gives better protection to our environment.

For the first time we are reporting against our 23 outcome targets. This work and numerous other projects we are working on all contribute to protecting and enhancing our environment.

It has been an energetic year of focused activity and positive change. With climate change clearly in our sights, we're on the right track to a healthy environment, a vibrant community and a prosperous economy.

Ngā mihi nui

Rex Graham	James Palmer
Chair	Chief Executive

Part 1 - Introduction | Kupu Whakataki

Message from the Chair of the Māori Committee

He Kupu nā te Toihau me te Komiti Māori

The focus of activity over the last year was about getting on with the job of improving land use, rivers and streams. I've said before that this is well-aligned with Māori aspirations.

This report also sees my retirement from the role of Māori Committee Chair with the Regional Council, after 18 rewarding years at the table.

Gradual changes in attitude over that time have seen Councillors and senior staff recognise Tāngata Whenua not just as another interest group, but increasingly as Treaty partners.

After five years of lobbying alongside fellow Māori Committee members Marei Apatu, Mike Paku and Roger Maaka, I am delighted to see the Māori Partnerships Manager role created in the Council's senior managers' team, and Pieri Munro in this new role with two senior Māori staff. A high calibre of Māori staff at a senior level is appropriate for the Regional Council.

The Regional Council's Māori Committee has been a great way of getting alongside the people who make the decisions, where both parties benefit from the discussions that take place. We can only move forward by communicating openly and with good honest intentions. The Māori Committee members and the Māori staff on the Council welcome your views and concerns at any time.

Nāku noa, nā

Mike Mohi

Māori Committee Chair (2011-19)

Part 1 - Introduction | Kupu Whakataki

Councillors and their Constituencies

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Part 1 - Introduction | Kupu Whakataki

Committee Structure

Regional Council and Committee meetings are open to the public, except where items of business exclude the public for specific reasons. Meeting dates and times are published in Hawke's Bay Today and on Council's website www.hbrc.govt.nz.

Hawke's Bay Regional Council had the following committees during 2018-19.

Part 1 - Introduction | Kupu Whakataki

Leadership Team

Hawke's Bay Regional Council is supported by a professional corporate organisation, led by the Chief Executive. Officers provide the Council with policy advice and are responsible for implementing the Council's policies to achieve the results the Council wants. The Chief Executive and staff are responsible for managing day-to-day issues and implementing the Councils' decisions and policies. The organisation has been structured under eight Groups, each headed by a member of the Executive Leadership Team.

James Palmer
Chief Executive

Jo Lawrence
Chief Exec & Chair
Group Manager

Liz Lambert
Regulation
Group Manager

Jessica Ellerm
Corporate Services
Group Manager

Iain Maxwell
Integrated
Catchment
Management
Group Manager

Tom Skerman
Strategic Planning
Group Manager

Pieri Munro
Te Pou Whakarae
Māori Partnerships
Group Manager

Chris Dolley
Asset
Management
Group Manager

Ian Macdonald
Hawke's Bay Civil
Defence Emergency
Management
Group Manager/
Controller

Part 1 - Introduction | Kupu Whakataki

Welcome to the Annual Report

This Annual Report describes the work the Regional Council has undertaken over the 2018-19 financial year. It focuses on actual performance against what was planned in the first year of the 2018-28 Long Term Plan and covers both service and financial performance against targets.

Part 2 Groups of Activities | Ngā Whakarōpūtanga Kaupapa

The seven Groups of Activities are:

- Governance and Partnerships
- Strategic Planning
- Integrated Catchment Management
- Asset Management
- Consents and Compliance
- Emergency Management
- Transport

Each Group of Activities includes a brief description of the activities that make up the group, identifies the community outcomes to which the group primarily contributes, and highlights for the year including effects on the community. This is followed by a table summarising financial performance and finally a table showing actual level of service results against the non-financial performance targets from the 2018-28 Long Term Plan.

Part 3 Financials| Pūrongo Pūtea

This section includes financial reporting benchmarks and financial details for Group Accounts, which include the Council and Hawke's Bay Regional Investment Company (HBRIC Ltd) for the year ended 30 June 2019.

Appendices

These include the *Independent Auditor's Report* (required under the Local Government Act 2002) and a report on *Key activities for progressively implementing the National Policy Statement for Freshwater Management* (required under the NPS-FM).

Part 1 - Introduction | Kupu Whakataki

Statement on the Development of Māori Capacity to Contribute to Decision-making Processes

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

Regional Planning Committee

The Regional Planning Committee (RPC) was first established by the Council in 2011. In August 2015, the Hawke's Bay Regional Planning Committee Act 2015 came into effect and formalised the arrangements for the RPC. The purpose of the Act is to improve Tāngata Whenua involvement in the development and review of plans prepared by the Council under the Resource Management Act 1991 (RMA).

Having been permanently established, the RPC is not dissolved every three years while local body elections take place. This enables the RPC, and in particular the Treaty settlement claimant groups, to oversee development and review of regional plans and policy statement documents under the RMA – processes which often span multiple years for longer-term environmental outcomes.

The RPC operates under the principles of co-governance to ensure that Tāngata Whenua are active decision makers in managing their taonga under the RMA. The RPC has two Co-Chairs: Mr Toro Waaka (appointed by Tāngata Whenua members) and the Regional Council Chair, Mr Rex Graham.

Seven RPC meetings were scheduled between 1 July 2018 and 30 June 2019 and a number of workshops.[1] The RPC typically met every six weeks. A number of matters were considered by the RPC throughout the year including:

a) Consideration of the draft Greater Heretaunga/Ahuriri Plan Change (PC9) known as TANK as it covers the Tūtaekurī, Ahuriri, Ngaruroro and Karamū catchments. A number of workshops were held to ensure the members were familiar with the content of the plan and to understand the issues which the TANK collaborative stakeholder group had considered since 2012. The TANK Plan Change and the issues considered within it were discussed at a number of meetings, gaining in-principle support. In December 2018, the RPC recommended that the Council approve the release of the draft plan for pre-notification consultation (in January 2019). The plan was sent to affected iwi authorities, territorial authorities and the Minister for the Environment for comment.
b) The RPC were presented with additional reports for consideration in relation to the development of the Outstanding Water Bodies Plan Change (PC7), including 'Selecting a List of Outstanding Water Bodies in Hawkes Bay' and 'Outstanding Water Bodies in Hawkes Bay: Report of the Expert Panel'. The RPC recommended to the Council that the draft Plan Change including a list of 43 water bodies be released for pre-notification consultation (in May 2019).
c) A third edition of the revised Progressive Implementation Programme for implementing the NPS-FM was presented to the RPC in October 2018. The RPC recommended that Council agrees to extend the full implementation of the National Policy Statement for Freshwater Management (NPS-FM) policies out to 31 December 2030. This was considered appropriate as meeting the 31 December 2025 timeframe would result in lower quality planning and it would be impracticable for the Council to complete implementation of all of the NPS-FM policies within that timeframe.

[1] *The Committee's Tāngata Whenua members typically convened their own hui a day prior to the full Committee meeting.*

Part 1 - Introduction | Kupu Whakataki

d) It was agreed that an independent review of the remuneration of RPC Tāngata Whenua members was to be undertaken.

e) On 12 April 2018, the Labour-led government announced that there would be no further offshore oil and gas exploration permits granted. In response to this announcement the Regional Planning Committee at their meeting on the 12 September 2018 recommended to the Council to cease further work on the preparation of the Oil and Gas Plan Change, with a view to incorporating this work, as appropriate in future coming reviews of the Regional Resource Management Plan and the Regional Coastal Environment Plan.

f) In December 2018, a request was presented to the RPC from the Tukituki Taskforce to consider amending the date for which the minimum flows would come into effect, to allow the community time to adapt to the new flows. In December, the RPC directed staff to scope and initiate a preliminary plan change process. Staff reported back to the RPC and after consideration of the views of affected parties, the RPC agreed not to progress a plan change to defer the 2018 minimum flow regime.

g) The RPC continued to receive regular update reports from staff about consent applications and proposed district plan changes that the Council had previously submitted to other councils on.

Māori Committee

The Regional Council has a representative group of Ngāti Kahungunu Tāngata Whenua as its Māori Committee. The Committee consists of 12 Māori members, three from each of the four Taiwhenua in the Hawke's Bay region, plus up to three councillors.

The Committee meets every second month to consider relevant issues and provides the Council with recommendations, taking into account Tāngata Whenua views, expectations and aspirations. The Māori Committee is a key mechanism established by the Regional Council to comply with its obligations to engage and consult with Māori, as set out under sections 81 and 82 of the Local Government Act 2002. It is a standing committee under clause 30(1)(b) of Schedule 7 to the LG Act.

A Charter sets out the way the Māori Committee and Regional Council will engage, last reviewed in October 2017. The Charter includes the Regional Council's responsiveness to its statutory obligations including policies aligning to Te Tiriti O Waitangi, resource consents consultation, and communication and engagement.

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

- Participation in the Three Waters Review
- Hosting a number of external speakers on key topics for Tāngata Whenua, such as Oranga Marae (Department of Internal Affairs)
- Progressing the Committee's resolve to cease commercial eel fishing in Hawke's Bay.

One member of the Māori Committee is appointed to each of Council's Environment and Services and Corporate and Strategic Committees, and two qualified RMA Hearings Commissioners on the Committee are appointed to Council's Hearings Committee.

The Chair of the Council's Māori Committee attends Regional Council and Regional Planning Committee meetings where they have speaking rights on all issues. The Māori Committee holds every second meeting in one of the four taiwhenua takiwa, to give the opportunity for Tāngata Whenua of that area to participate in discussions of particular relevance to their rohe. In 2018-19, meetings were hosted by Ruataniwha Marae, Matahiwi Marae, Te Taiwhenua O Tamatea in the Waipukurau Community Hall, Whakakī Marae, and Pukemokimoki Marae.

Part 1 - Introduction | Kupu Whakataki

Direct Hapū and Other Involvement

The Council has continued to have direct interaction with a number of 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 the 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, the 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 the Council's work programmes. Projects such as Hawea Historical Park, engagement within the Council's hot spots such as Whakakī and Lake Tūtira rely on the contributions of Tāngata Whenua to ensure the project's environmental success.

Council has Pataka, a web-based GIS resource management tool that holds and displays Tāngata Whenua information spatially to meet the requirements of s35A of the Resource Management Act 1991 but also holds a wider range of Tāngata Whenua-related information too. Pataka is a living website therefore it must continue to be reviewed for accuracy to assist the Council and also the greater public who need to consult with Tāngata Whenua at various times, including when submitting resource consent applications.

A key decision made by the Council in its 2018-28 Long Term Plan, was 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. The Māori Partnerships Group was established and resourced during 2018-19 to help drive this capacity and partnership from within the Council with Tāngata Whenua.

Part 1 - Introduction | Kupu Whakataki

Community Outcomes

Under the Local Government Act 2002, our Long Term Plan must describe the community outcomes for the Hawke's Bay region and link our activities to these outcomes.

Community Outcomes are what "... a local authority aims to achieve in order to promote the social, economic, environmental, and cultural well-being of its district or region in the present and for the future".
Our community outcomes are:

Healthy Environment   Vibrant Community   Prosperous Economy

These icons are used in the Groups of Activities statements to show when activities primarily contribute to a specific community outcome.

Outcome measures

Under section 23 of Schedule 10 of the Local Government Act, the Council must report the results of any measurement undertaken during the year of progress towards the achievement of community outcomes. For the first time, the Regional Council has time-bound strategic goals that are being used as community outcome measures. These demonstrate a desire by the Council to shift from reporting activity or outputs, to managing for and reporting on outcomes – the things that matter to the community. Typically, the Regional Council does not have full control over the achievement of these outcomes, but it has a clear statutory role in achieving them. Where possible, the outcomes align with national targets or an existing Hawke's Bay strategy or plan.

The outcome measures are grouped by the Regional Council's four focus areas – Water, Land, Biodiversity and Infrastructure/Services. The four areas are interconnected and mutually reinforcing so success in one area cannot be at the expense of another. For example, the work we are doing on farms to keep soil on the land directly contributes to water quality.

Part 1 - Introduction | Kupu Whakataki

This is the first year we have reported against the community outcome targets. In some cases the methodology for data collection and reporting is still being developed. The table below provides results or progress made to date and the actions the Regional Council is undertaking to contribute to the achievement of the 23 community outcome targets. The status against the target is described as Completed, On track, Under way, or Off Track. Longer term, it is intended to develop time series (where relevant) to enable trend reporting (i.e. improving, worsening or no change).

Water quality, safety and certainty

Community Outcome Target	Commentary	Status
By 2025, plans for catchments where life-supporting capacity is compromised are in place and actively implemented By 2025, Tāngata Whenua values for all catchments are identified and embedded in the Regional Resource Management Plan By 2030, all aquifers, lakes and rivers will have community-agreed quantity and quality limits in force	Following amendments to the National Policy Statement for Freshwater Management (NPS-FM) in August 2017, the Regional Council adopted a third edition of its Progressive Implementation Plan NPS-FM (PIP) on 31 October 2018. The updated implementation programme replaced the previous programme adopted by the Council in November 2015 and the original September 2012 edition. Under the PIP, all catchments will have been through a plan change to set objectives and limits as required under the NPS-FM by 2030, including consulting on Tāngata Whenua values and quantity and quality limits (amongst other things). Under the Essential Freshwater package (formally announced on 5 September 2019), the government is bringing forward the date for limits to be in force to 2025. This will require a rethink of the PIP and the way the Regional Council undertakes plan changes.	Underway
By 2030, cultural monitoring tools are in-use in all catchments	The Regional Council has been working with Te Taiwhenua o Heretaunga to establish a Tukituki Matauranga Māori framework (a Māori values-based monitoring and Māori wellbeing framework for the Tukituki Awa/River), including the development of the monitoring tohu/indicators. It is intended that this will provide a partnership approach that can be rolled out to other catchments in parallel with future plan changes.	Underway
By 2030, all popular Hawke's Bay swimming sites will be swimmable 80% of the time, and 90% of the time by 2040 *(source: NPS –FM updated Aug 2017)*	**Results** For the period July 2013 to June 2018, 83% of our recreational water quality sites were considered safe to swim on more than 80% of sampling occasions during November to March. **What we are doing to contribute** Under the Tukituki Plan Change, stock exclusion is mandatory in the catchment from 31 May 2020 and 1010 farm plans have been completed to identify potential critical source areas for faecal contamination. Similar regulations will come into effect for other catchments as limit setting plan changes are progressed. It is too early to explore relationships between this work on the ground and trends in the data but it should enable us to reach the outcome target. Particular focus will be required in the estuaries which make up 67% of the non-compliant sites.	On track

Part 1 - Introduction | Kupu Whakataki

By 2050, there will be an improving trend in the life-supporting capacity of all of the region's degraded rivers and major streams	**Results** We are currently developing a fit-for-purpose monitoring programme to assess whether the life -supporting capacity of all of the region's degraded rivers and major streams is being improved or not. This will include the need to agree suitable definitions for many of these terms. As of June 2018, 41 out of 76 (54%) monitored sites had a Macroinvertebrate Community Index (MCI) score of either 'poor' or 'moderate'. The MCI is currently our best measure of ecosystem health, but we are working on developing our monitoring network and methods to more holistically capture the 'life-supporting capacity' of our waterways. **What we are doing to contribute** Like the outcome above, the Regional Council's FEMP (Farm Environment Management Plan) initiative, riparian planting programme and erosion control scheme is focused on on-farm planting and planting to improve freshwater quality. The Council has also successfully leveraged significant external funding for specific projects including $1.38 million for the Whakakī Lake Project secured from the Freshwater Improvement Fund in June 2019, and $1.5 million for Te Waiū o Tūtira – the milk of Tūtira, secured from the Freshwater Improvement Fund in 2018 to accelerate existing efforts to improve water quality and ecological habitat. Extra Council funding has been earmarked for the installation and maintenance of continuous water quality instrumentation to measure temperature, dissolved oxygen and pH at key monitoring sites around the region. These variables form a key part of 'life-supporting capacity'. A holistic ecosystem health programme is also being designed in tandem with the Cawthron Research Institute. This is scheduled to commence in 2020-21.	Underway

Part 1 - Introduction | Kupu Whakataki

Smart sustainable land use

Community Outcome Target	Commentary	Status
By 2025, stock is excluded from all year-round flowing streams and rivers and at least 30% are fenced and planted to filter contaminants	We have begun a riparian monitoring assessment project through Land Science to statistically assess the condition of the regions 'riparian margins. This is beginning in the Tukituki catchment. This outcome target will be reinforced by the regulations in the Essential Freshwater package. Under these regulations stock is defined as cows and pigs (not sheep and deer).	On track
By 2025, Land Use Suitability information is available to all commercial land owners to inform smarter land use	In September 2019, the Hawke's Bay Regional Council (HBRC) will start working with Manaaki Whenua-Landcare Research to develop region wide Land Use Suitability assessments. Project planning is underway.	Underway
By 2030, all commercial farms, orchards and vineyards operate under a Farm Environment Management Plan (FEMP) or an independently audited industry best practice framework	**Results** Currently this information is only available for the Tukituki catchment. All farms over 4 hectares (ha) must have a FEMP under the Tukituki Plan. 96% by land area is being managed using a FEMP. This equates to 1010 FEMPs. 49 non-compliant farms are being dealt with by the compliance team. **What we are doing to contribute** In the 2018-28 Long Term Plan, the Council resolved to borrow $5 million over ten years to provide incentives to change in the form of interest-free loans for Farm Plans. Landowners can take up the subsidy prior to regulations coming into effect through plan changes. Farm Plans will also become compulsory as part of the Essential Freshwater package under a National Environmental Standard with a phased implementation. This will support the achievement of this outcome target. This is measured by area of land by catchment covered by a Farm Plan by ownership. Farm Plans are defined here as any plan that addresses contaminant risk and identifies mitigations to reduce that risk.	On track for Tukituki
By 2030, all farms in priority sub-catchments will have phosphorus management plans being implemented, with at least 50% of highly erodible land treated with soil conservation plantings	Currently this information is only available for the Tukituki catchment. 24% of the 250,000 ha within the Tukituki is in an over allocated sub-catchment. The sub-catchments are Papanui, Mangaonuku, Kahahakuri. All properties within the sub-catchments have a comprehensive phosphorous management plan as part of their FEMP. Reporting on implementation is a work in progress. As in the above outcome target, the Essential Freshwater package includes limits on Nitrogen and Phosphorous so will support the achievement of this outcome target.	On track for Tukituki

Part 1 - Introduction | Kupu Whakataki

By 2050, all highly erodible land will be under tree cover	**Results** There is an estimated 252,000 ha of highly erodible land in Hawke's Bay. This contributes an estimated 3.3 million tonnes of sediment to Hawke's Bay waterways every year. In 2018-19, staff worked with landowners to complete 69 Erosion Control Plans which relate to $2.3 million of total works on the ground ($1.7 million of that is being funded by the Council). The total area under an Erosion Control Plan is estimated at 29,640 ha. This equates to approximately 12% of the total area of modelled highly erodible land (noting that not all of the area covered by a plan requires planting). This was the first year of the Erosion Control Scheme (ECS) with systems and processes still under development including how to measure the actual area of highly erodible land under land cover both spatially and by landowner. **What we are doing to contribute** The ECS helps Hawke's Bay landholders keep soil on their hills and out of the water by providing significant financial support for erosion control work such as non-commercial tree planting, fencing and land reversion. The Council has committed $30 million over 10 years through the ECS. Further funding of $5 million was secured from the Ministry for Primary Industries (MPI) Hill Country Erosion Scheme. Improved ecological health of the region's waterways and biodiversity enhancement are secondary benefits to this scheme.	Underway
By 2030, there will be 20% less contaminants from urban and rural environments into receiving waterbodies By 2050, there will be 50% less contaminant from urban and rural environments into receiving waterbodies	Monthly water quality sampling is good for assessing the state and trend of contaminant concentrations over time. Monthly water quality sampling does not however provide accurate assessments of contaminant loads because the large loads carried on floods are often missed. We have committed extra resourcing to more accurately measuring contaminant loads, which includes continuous water quality instrumentation at key sites around the region as well as automatic water quality samplers that target flood events. These new monitoring programmes will provide the information needed to assess our progress towards contaminant load reductions.	Underway

Part 1 - Introduction | Kupu Whakataki

Healthy and Functioning Biodiversity

Community Outcome Target	Commentary	Status
By 2020, regional priority locations for ecosystem restoration – including in the coastal marine area – have been identified	900 priority terrestrial ecosystem sites have been identified, based on type, how many there are, size, connectivity and condition using a conservation planning software tool called Zonation which was then verified using expert local knowledge. Zonation helped us determine the top 30% priority terrestrial sites to put our efforts to deliver the biodiversity outcomes for the investment. Ecosystem-based site prioritisation was one of six priority actions identified in the HB Biodiversity Action Plan 2017-21 and will underpin much of the subsequent work to achieve the objectives in the HB Biodiversity Strategy (and the next community outcome target). In June 2019, the HBRC engaged NIWA to identify key coastal/marine ecological areas.	Completed for land Underway for coastal marine
By 2030, key (target) species and habitat (sites) are prioritised and under active restoration *(HB Biodiversity Strategy 2015-2050 and Action Plan 2017-2020)*	**Results** In the past year, 13 sites (six wetland sites, six bush remnants and one estuary) were fenced and weed-controlled to protect the endangered ecosystems. This is the first year of the programme making it difficult to assess how many ecosystems we can feasibly secure and/or restore each year. Successfully securing all 900 identified priority sites will require a multi-agency joined-up approach. **What are we doing to contribute** The HBRC has committed $200,000 per annum to fund operations on the ground to secure, manage and restore identified sites. A further $40,000 of operating expenditure is dedicated to developing a monitoring framework for biodiversity outcomes on sites prioritised through this process. Ongoing work also involves building partnerships with other teams within the Regional Council such as Catchment Management, Open Spaces and Engineering and other agencies such as QEII, NZ Landcare Trust, Forest & Bird, the forestry sector, local authorities, Biodiversity Hawke's Bay and the Native Forest Restoration Trust to leverage funding. Over the past year our partnerships have resulted in an extra $140,000 funding to protect and enhance ecosystem prioritisation sites, resulting in more sites being actively managed than would have been achievable using the current resource allocation. The team is actively exploring external funding such as the One Billion Trees Programme, the Department of Conservation's Community Conservation Fund and the Lottery Grants Board in partnership with Biodiversity Hawke's Bay.	Underway

Part 1 - Introduction | Kupu Whakataki

By 2050, a full range of indigenous habitats and ecosystems, and abundance and distributions of key species are maintained and increased in every catchment in Hawke's Bay *(HB Biodiversity Strategy 2015-2050 and Action Plan 2017-2020)*	The Environment Aotearoa 2019 report released by the Ministry for the Environment identifies "Our native plants, animals and ecosystems are under threat" as one of nine priority issues for NZ. The number of endangered species is growing making this an ambitious target to achieve. The methodology for identifying key species across the region, and how we measure the abundance and distribution of these species is being worked on. **What are we doing to contribute** As mentioned above the Council has dedicated funding for ecosystem protection and monitoring as well as a range of other work programmes that deliver biodiversity outcomes, including but not limited to Predator Free Hawke's Bay, Possum Control Areas programme, pest plant management, regional parks, river management, and the Erosion Control Scheme. The Council is working closely with others to leverage funding for this critical work. In 2018, the HBRC seed funded the HB Biodiversity Trust with $200,000 for its endowment and fully funded the Biodiversity Hawke's Bay Project Manager. The HB Biodiversity Foundation's goal is to grow its endowment to $10 million in ten years, and $50M+ longer term to transform biodiversity outcomes in the region.	Underway
By 2050, Hawke's Bay is predator free in line with NZ 2050 target	**Result** 14,500 ha of land on Mahia Peninsula is targeted for possum eradication and predator suppression (feral cats, stoats and ferrets) over four years. This is the first phase of Predator Free Hawke's Bay. **What are we doing to contribute** The Regional Council has successfully leveraged $3.1 million of the $4.8 million for the Whakatipu Mahia project from PF2050 Ltd and other external funders. Staff have re-located to Mahia to work on this alongside education and biodiversity restoration actions.	Underway

Part 1 - Introduction | Kupu Whakataki

Sustainable services and infrastructure

Community Outcome Target	Commentary	Status
By 2025, regional air quality consistently meets World Health Organisation guidelines	**Results** Napier and Hastings airsheds have met National Environmental Standards for air quality over the past five years. Awatoto breached in 2018 and is likely to have in 2015. The highest concentrations recorded have approximately halved in Napier and Hastings since continuous monitoring began in 2005-06. There are no trends in the Awatoto airshed. PM10 has been exceeded 79 times in Hastings and 17 times in Napier in the last ten years but it is trending in the right direction. Fine particles standards PM2.5 are likely to come into effect in the near future (aligned to World Health Organisation guidelines). This may result in more exceedances. **What we are doing to contribute** In 2009, the HBRC established the HeatSmart programme to replace non-compliant wood burners and promote the use of dry wood. The programme has exceeded its target of providing 10,000 financial packages (e.g. grants/loans for compliant heating and insulation) over ten years. The introduction of new ultra low emission burners will also help reduce emissions from household heating. The Regional Council has also been working to improve air quality through setting and enforcing rules in the Regional Resource Management Plan related to emissions of harmful substances into the atmosphere (e.g. through winter burn-offs). The HBRC contributes to lowering emissions from traffic through provision of public transport and cycleways as well as use and promotion of electric cars.	On track
By 2025, coastal hazards are being managed to meet foreseeable climate change risks to coastal communities out to 2100	In early 2018, the Clifton to Tangoio Coastal Hazards Strategy 2120 was adopted, following intensive multi-criteria options analysis and stakeholder engagement. The Strategy is a joined-up approach between the Hawke's Bay Regional Council, Napier City Council, Hastings District Council and iwi groups Mana Ahuriri, He Toa Takitini and Maungaharuru-Tangitū Trust with a focus on long-term workable solutions. In May 2019, the Coastal Hazards Joint Committee recommended the establishment of a coastal contributory fund to help the councils to rate for the future costs of implementing actions such as groynes, shingle renourishment and sea walls. This is a significant step toward funding the major infrastructure costs that form part of the region's growing response to climate change. The details associated with the coastal hazards contributory fund will be the focus of public consultation in 2020, with remaining matters to be further consulted on after 2021, including specific designs for each priority coastal area, the prioritisation of works and the triggers for action. The focus will then move to other coastal areas. More information is at hbcoast.co.nz	On track

Part 1 - Introduction | Kupu Whakataki

By 2025, the Napier Port is future-proofed with the addition of a new wharf with supporting land transport infrastructure	In June 2019, the Regional Council instructed Napier Port to proceed with a 45% initial public offer (IPO) of shares in the Port, paving the way to deliver the funds needed to help the Port to grow. On 20 August 2019, access to capital was confirmed through an IPO listing on NZX. The HBRC invested over two-and-a-half years in this process - much of this time spent thoroughly investigating all viable options to deliver the results the Council needed on behalf of the Hawke's Bay community. The process focused on establishing the most appropriate capital structure for the Regional Council, particularly with Napier Port needing a new wharf investment, at a cost of up to $190 million. After extensive community consultation, the Regional Council settled on a minority IPO for 45% of Napier Port. This was agreed to be the best solution for our Port and our region. It gives the funding the Port needs, protects ratepayers from the costs, diversifies the Council's income streams, and keeps majority Regional Council ownership and control of the Port. KiwiRail re-commenced log service between Wairoa and Napier in June 2019.	On track
By 2030, flood risk is being managed to meet foreseeable climate change risks out to 2100	Phased design and construction planning is under way to improve the level of protection provided by the Heretaunga Plains Flood Control and Drainage Scheme from 1% (1 in 100 years return period) to 0.2% (1 in 500 year return period) to accommodate climate change impacts. The Upper Tukituki Scheme will follow.	Underway
By 2030, HB has environmentally sustainable, harvestable water identified and stored or plans to be stored if required	The 2018-28 Long Term Plan set aside $5 million to develop an integrated set of freshwater security of supply solutions. This funding has been leveraged to secure $30 million funding from the Provincial Growth Fund for four regional water security projects. • $2.15 million for a high-resolution, aerial electromagnetic survey of Hawke's Bay's aquifers. • $450,000 to produce a regional freshwater assessment, including detailed analysis of the region's freshwater requirements over the next 30 – 50 years, as well as the ability for known water sources to meet demand. • Two focused areas of investigation in relation to the region's two significant groundwater catchments on the Heretaunga and Ruataniwha plains. In March 2019, the Council approved a Regional Freshwater Security Policy to guide this work.	Underway

Part 1 - Introduction | Kupu Whakataki

By 2040, Hawke's Bay is carbon neutral	No baseline has been set for existing greenhouse gas emissions but work is underway to develop a Climate Change Strategy which will help us set a baseline that complies with global standards for measuring greenhouse gas emissions (the GHG Protocol). **What we are doing to contribute** On 26 June 2019, the Council declared a climate emergency, recognising global warming to be an urgent and pervasive threat to human and ecological wellbeing. This has signalled the development of a comprehensive climate response including changes to governance structures, developing a current regional state of knowledge with an analysis of risks and opportunities, the Regional Council's own corporate response, regular reporting and extensive community engagement. In a subsequent meeting on 7 August, the Environment and Services Committee requested a community campaign be developed to gain community commitment to achieving the Council's 2040 goal of becoming carbon neutral.	Underway

Part 2:
Groups of Activities |
Ngā Whakarōpūtanga Kaupapa

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

How to read this section

The Council aggregates and reports its financial and service performance information in Groups of Activities for ease of understanding.

The Groups of Activities are:

1. Governance and Partnerships
2. Strategic Planning
3. Integrated Catchment Management
4. Asset Management
5. Consents and Compliance
6. Emergency Management
7. Transport.

Change in Group of Activities

In the 2018-28 Long Term Plan (LTP) the Regional Council reorganised its activities into seven groups (compared to eight in the previous LTP) to better mirror its organisational structure. As a result some activities have shifted from one group to another. This combined with changes to the service (or non-financial) performance measures means the information in this section is different to the previous year's annual report.

The table below shows the difference in the Groups of Activities (GOA) between the 2015-25 and 2018-28 LTPs. Prior year comparative (2017-2018) financial information has been restated to reflect the updated Group of Activities in the Cost of Service Statements and Group of Activity Funding Impact Statements:

Current GOA as per the 2018-28 LTP	Previous GOA as per the 2015-25 LTP	Changes
Governance and Partnerships	Governance, Community Engagement and Services	Name change plus activities within the new GOA amalgamated from four to two.
Strategic Planning	Strategic Planning	Policy Implementation and State of the Environment Monitoring activities renamed/amalgamated with other activities and shifted to Integrated Catchment Management GOA.
Integrated Catchment Management	Biosecurity and Biodiversity	Biodiversity and Biosecurity now included in Integrated Catchment Management GOA as an activity.
	Regional Resources	Coastal Management, Gravel Management and Open Spaces activities shifted to Asset Management GOA. The remaining activities included in renamed Integrated Catchment Management GOA.
Asset Management	Land Drainage and River Control	GOA and activities sitting within it renamed and Coastal, Gravel And Open Spaces activities moved into GOA from old Regional Resources GOA. Flood Risk and Warning moved into GOA from old Emergency Management GOA.
Consent and Compliance	Regulation	Name change only.
Emergency Management	Emergency Management	Flood Risk and Warning moved into Asset Management GOA.
Transport	Transport	Regional Cycling (previously in Open Spaces activity) shifted from Regional Resources GOA to Transport.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Each Group of Activities describes:

What we do

A brief description of the activities that make up the Group of Activities.

Why we do it

Describes the rationale for delivery of the Group of Activities and the community outcomes[2] to which the activities primarily contribute as well as identified effects that any activity has had on the four well-beings. The Regional Council's community outcomes are derived from the vision statement in its Strategic Plan 2017-2021 and are represented by the following icons:

What we did

Gives brief highlights for the 2018-19 year in chronological order.

What we spent

This is the Cost of Service Statement for each Group of Activities. It covers:

- Actual financial performance against budget for
- A comparison with the previous year's actual expenditure (2017-18)
- An explanation of any material financial variances.

How we did

This is the Statement of Service Performance for each Group of Activities. It covers:

- Actual service performance against targets set in the 2018-28 Long Term Plan expressed as
  Achieved
  Partially Achieved
  Not Achieved
  Not Measured
- The previous year's result (2017-18) where relevant
- Commentary to provide context and more information on the performance result.

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[2] Community outcomes means the outcomes that a local authority aims to achieve in order to promote the social, economic, environmental, and cultural well-being of its district or region in the present and for the future.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Governance & Partnerships

What we do

There are two activities within the Governance and Partnerships Group of Activities:

- Community Representation and Leadership
- Tāngata Whenua Partnerships and Community Engagement

Community Representation and Leadership

This activity aims to support elected members in their governance roles to make robust and transparent decisions. It also maintains the integrity of council processes such as triennial elections, representation reviews and council meetings by ensuring they are run correctly and providing timely and appropriate responses to official information requests and Ombudsmen's office enquiries.

Tāngata Whenua Engagement and Community Engagement

This activity covers our engagement with Tāngata Whenua as required by the Local Government Act, co-governance arrangements with Treaty settlement groups through the Regional Planning Committee and other strategic relationships. It also includes our engagement and communication with the general community through a variety of media and the Enviroschools programme.

Why we do it

This Group of Activities primarily contributes to a Vibrant Community by giving Tāngata Whenua and the people of Hawke's Bay opportunities to have a meaningful say on the direction of their region.

VIBRANT COMMUNITY

Most of what the Council does in this Group of Activities is prescribed by the following legislation:

- Local Government Act 2002
- Local Electoral Act 2001
- Local Government Official Information and Meetings Act 1987
- Local Authorities (Members' Interests) Act 1968
- Hawke's Bay Regional Planning Committee Act 2015

What we did

Highlights in 2018-19 for the Governance and Partnerships group included:

- In August 2018, the Regional Council and Ngāti Kahungunu Iwi Incorporated signed the Kahutia Accord MOU (Memorandum of Understanding). The Kahutia Accord is a formal partnership with the aim to reforest 100,000 hectares of land across Hawke's Bay by 2030. Key objectives are also economic and social outcomes by way of industry creation, skills development and employment. Reconnecting the community with the environment is also an intended co-benefit

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Governance & Partnerships

- The Regional Council formed a Māori Partnerships team. The Council appointed a Te Pou Whakarae in its executive leadership team reporting directly to the Chief Executive and two supporting roles; Senior Advisor Māori Partnerships and Māori Engagement Coordinator. The team's focus is growing council-wide cultural capability, enhancing council's engagement with Tāngata Whenua and facilitating technical input to meet all statutory requirements.
- In March 2019, A "Stand, Enrol, Vote" campaign was developed to increase public awareness, attract a diverse range of candidates, and promote greater participation in the local election process. Staff have worked in partnership with the other territorial authorities on some shared communication collateral and candidate briefing evenings.
- On 26 June 2019, a final decision of the Council was made to proceed with a 45% Initial Public Offering (IPO) of shares in the Napier Port to fund the Port's growth and diversify the Council's investments. This followed more than two-and-a-half years of work investigating options, consulting the community and setting up an appropriate structure.
- Councillors and management continue to represent the HBRC on a number of joint committees and collaborative forums such as the regional Three Waters Service Delivery Review, the Drinking Water Governance Joint Committee, Coastal Hazards Strategy, Heretaunga Plains Urban Development Strategy implementation working group, Tukituki Taskforce and HBLASS (Hawke's Bay Local Authority Shared Services).
- The Enviroschools Programme continued to grow with 60 kindergartens and schools now participating. A highlight is the participation of all 16 kindergartens in the Heretaunga Kindergarten Association. Council's Environmental Education resources aim to play a key role in connecting schools to catchment groups, riparian planting and restoration projects.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Governance & Partnerships

What we spent

Governance and Community Engagement

	Activity (#)	Actual 18/19 ($'000)	Budget 18/19 ($'000)	Actual 17/18 ($'000)
EXPENDITURE				
Operating Expenditure				
Community Representation and Leadership	1	2,252	1,449	1,746
Tanagata Whenua Partnerships & Community Engagement	2	1,488	2,116	1,262
Depreciation/Amortisation Expense		7	8	7
Total Operating Expenditure		3,748	3,573	3,016
Capital Expenditure				
Solar Heat Advances		-	-	-
Asset Construction				-
Loan Repayment		390	405	390
Total Capital Expenditure		390	405	390
TOTAL EXPENDITURE		4,138	3,978	3,406
REVENUE				
Activity Revenue				
Direct Charges		61	122	13
Total Activity Revenue		61	122	13
Other Revenue				
Grants		25	15	43
Loan Funding		100	100	100
Solar Heat Repayments			-	-
Total Other Revenue		125	115	143
TOTAL REVENUE		186	237	156
TOTAL GENERAL FUNDING REQUIREMENT		(3,952)	(3,741)	(3,250)
Special Reserve Funding				
Regional Projects Reserve			-	-
Sale of Land (Investment) Reserve		485	520	522
Total Special Reserve Funding		485	520	522
NET GENERAL FUNDING REQUIREMENT		(3,467)	(3,221)	(2,728)
MET BY				
General Funding Rates		2,668	2,603	2,038
Investment Income		2,069	826	1,978
Operating Reserves		(1,270)	(208)	(1,288)
		3,467	3,221	2,728

Note: The comparative information has been restated to reflect changes in the activity grouping reported. Refer to page 23 for more detail.

Financial Variances Explained

Operating expenditure exceeded budget by $175,000 largely due to additional costs related to establishing the most appropriate capital structure of Napier Port. This led to the most significant consultation in the Council's history and resulted in a record number of submissions. This was expended through the Community Representation and Leadership activity.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Governance & Partnerships

How we did

Community Representation and Leadership Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will make transparent decisions, deliver cost-effective infrastructure and services and engage the community in activities and decision-making processes, with clear expectations for participation.	Council meetings are conducted in compliance with statutory requirements and Standing Orders.	Achieved (New measure)	Achieved All Council and Committee meetings were advertised, conducted and minuted in accordance with relevant Local Government Act and Local Government Official Information & Meetings Act requirements.
	LTPs and annual reports receive "unmodified" audit opinions.	Achieved (New measure)	Partially Achieved An unmodified audit report was received for an amendment to the 2018-28 Long Term Plan. A qualified audit opinion was received on Regional Council's group financial statements for the 2017-18 Annual Report. An unmodified audit opinion was received on Regional Council and group's other audited information. The basis for the qualified audit opinion was the result of Audit NZ being unable to obtain sufficient appropriate audit evidence to determine the tax effects of Ruataniwha Water Storage Scheme (RWSS) expenditure. The amount of tax deductions available in relation to the $19.594 million losses on the RWSS intangible asset has since been determined through a binding ruling from the Inland Revenue Department (made in December 2018). The tax benefit has been recognised in Regional Council's group financial statements this year. A qualified audit opinion was also received on Regional Council's group financial statements for the 2018-19 Annual Report. An unmodified audit opinion was received on Regional Council and group's other audited information. The basis for the qualified audit opinion was due to the group financial statements including the financial statements of the company's subsidiary, Port of Napier Limited, for the year ended 31 March 2019 rather than for the year ended 30 June 2019.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Governance & Partnerships

	Percentage of surveyed residents who perceive "acceptable to very good" value of services from HBRC rates (source: 2-yearly SIL perception survey).	75% (New measure)	**Not Achieved** 73.8% (48.5% acceptable, 25.3% good/ very good). Despite not hitting the self-selected target this is a 1.6% increase on the previous survey result (2017-18: 72.2%) so signifies an improvement in resident satisfaction. Note: The SIL perception survey was undertaken between May – June 2019 so has been reported in this financial year, not 2019-20 as scheduled in the 2018 -2028 Long Term Plan.
HBRC will make sound investment decisions to grow its assets and generate investment incomes to fund council projects, programmes and activities.	Rate of returns on investment as set out in Council's Investment Policy* are met.	Achieved (New measure)	**Partially Achieved** Above target returns were achieved for some but not all of Council's revenue generating assets. Commercial property returned a cash yield of >5%. The Napier Port achieved its forecast dividend and exceeded expectations in the recent IPO. The exception was managed funds. During the course of the financial year, $40 million was placed into diversified investment portfolios or 'managed fund'. As at 30 June 2019 the combined balance of the fund was $41,909,541 representing an increase of 4.77% (before fees and inflation). While certain investments have met or exceeded the target rate of return (e.g. NZ equities, Trans-Tasman equities), the overall investment returns for the managed fund are below Council's FY19 targeted net inflation-adjusted return of 4.50% due to (1) Council's allotment of capital between Income and Growth assets; and (2) Target asset allocation and portfolio composition have yet to be fully realised by one of the two fund managers. Target asset allocation for funds under management has not been achieved partly due to gradual, deliberate and systematic staggering of investment portfolio positions in a volatile macroeconomic environment. Annualised returns reporting relative to the benchmark will commence in 2020.

***Investment Performance Objectives** [excerpt from Statement of Investment Policy and Objectives (SIPO)]

Council's Fund is targeted to earn a return at least equal to a real return (after inflation and fees) of 4.5% in Year 1 and 5.0% per annum in Year 2 and beyond. All returns are assessed in NZD.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Governance & Partnerships

Tāngata Whenua Partnerships and Community Engagement Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC engages in strategic relationships to better achieve its vision and purposes.	Annual reporting to Council on performance of strategic relationships.	Achieved (New measure)	**Not measured** Performance of strategic relationships was not measured and therefore not reported prior to the Annual Report. A methodology for measuring performance will be developed in 2019-20. Strategic relationships with Tāngata Whenua are held through a range of mechanisms; Regional Planning Committee (RPC), Māori Standing Committee (MSC), Post-Settlement Governance Entities (PSGE) Chairs, and bi-laterals that are open to all PSGEs as a one-on-one with the HBRC Chair, Chief Executive and elected councillors. Only three PSGEs are participating in regular bi-laterals whereas all PSGEs except Te Uru Taumatua (Tūhoe) have appointees to the RPC which is a statutory committee. RPC and MSC met on their scheduled dates whereas the bi-laterals have been scheduled to accommodate business demand on respective participants.
HBRC has the internal capability and capacity to engage effectively with Tāngata Whenua.	An annual programme to improve cultural competency for staff and councillors is resourced, developed and implemented.	Achieved (New measure)	**Not Achieved** Annual programme delayed due to Māori Partnerships Group not achieving full capacity and induction of staff until May 2019. Building the cultural competency programme is a priority for the 2019-20 work programme.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Strategic Planning

What we do

There are three activities within the Strategic Planning Group of Activities:

- Strategy
- Planning
- Sustainable Regional Development

Why we do it

This Group of Activities contributes to the following community outcomes:

The Strategic Planning Group of Activities is focused on maximising the economic and social benefits of the region's resources while minimising detrimental environmental impacts. The HBRC carries out this role because it is able to provide an integrated overview of the entire region and has a statutory mandate under the Resource Management Act.

What we did

Highlights in 2018-19 for the Strategic Planning group included:

- In August 2018, a Project Management Office (PMO) was established to act as a centre of excellence for project management at the HBRC. This is the first time the Regional Council has had dedicated resources to implement a consistent best practice project management framework across the whole organisation. Project delivery is decentralised with subject matter experts acting as project managers following the agreed project management methodology with support provided by the PMO.
- In October 2018, an Establishment Working Group was convened to develop the mission, scope, programme and appropriate structure for the Future Farming Initiative which was created as an outcome of the Council's consultation on the 2018-28 Long Term Plan. Recruitment for trustees began in May 2019 with nine high-calibre applicants selected including a Council appointee. The Future Farming Charitable Trust's ambition is to make Hawke's Bay's farming the pride of our entire community; to shine a light on our region's existing and emerging expertise and create a local hub of knowledge, research, education and opportunity for profitable and resilient farming that ensures the health of the region's soil and water, communities and farmers into the future. A public launch is due in late 2019.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Strategic Planning

- The past year has seen intensive involvement by HBRC staff in reviewing the Government's NPS-FM (National Policy Statement for Freshwater Management) resulting in the Essential Freshwater package. A Senior Planner was seconded to the Ministry for the Environment for six months to work on freshwater reform and our Group Manager ICM (Integrated Catchment Management) and Chief Executive (CE) sat on the Regional Sector Water Sub-Group directly influencing and shaping the national policy. Ongoing, our staff are well represented on regional sector special interest groups (including the Group Manager ICM's role as the Convenor of the Resource Management Group), on National Science Challenges and our CE sits on a Ministerial Forestry advisory group.
- In January 2019, the draft Greater Heretaunga/Ahuriri Catchment Area (TANK catchments) Plan was released for pre-notification consultation, and was sent to affected iwi authorities, territorial authorities and the Minister for the Environment for comment. Prior to that, in August 2018, the draft plan was handed over from the TANK collaborative stakeholder group, who had been working on this piece of work for six years, to the Regional Planning Committee. The TANK Plan Change (PC9) is part of ongoing work to implement the NPS-FM. It will set new rules of water quality and quantity in the TANK catchment area. The Plan Change is progressing towards public notification in late 2019 with hearings to follow in 2020.
- In February – March 2019, stage 2 hearings were held for the Ngaruroro Water Conservation Order application. The hearings focused on the lower Ngaruroro River and Clive River. Stage 1 hearings took place from 14 November – 6 December 2018 and focused on the upper Ngaruroro River. The Council submitted in opposition to the application in 2017 due to it cutting across the TANK (PC 9) community decision-making process and presented evidence at the hearings.
- On 17 May 2019, the draft Outstanding Water Bodies Plan Change was released for pre-notification consultation. The Council worked with the Regional Planning Committee, Tāngata Whenua, territorial authorities, local experts and other key stakeholders to identify outstanding water bodies within the region. The Plan Change (PC 7) proposes to include this identified list and a framework which prescribes a high level of protection for these water bodies in future plan making. This project is also a key part of ongoing work to implement the NPS-FM.
- In June 2019, it was announced that Hawke's Bay was awarded more than $64 million from the Government's Provincial Growth Fund (PGF). Funding will be distributed from Wairoa to Central Hawke's Bay and will fast track new initiatives, with water and infrastructure projects the major recipients. Overall, the PGF has earmarked $30.6 million funding support split between grant funding and loan funding (if required) for four regional water security projects which will be administered by the Hawke's Bay Regional Council:
    - $2.15 million for a high-resolution, aerial electromagnetic survey of Hawke's Bay's aquifers
    - $450,000 to produce a regional freshwater assessment, including detailed analysis of the region's freshwater requirements over the next 30 – 50 years, as well as the ability for known water sources to meet demand
    - Two focused areas of investigation in relation to the region's two significant groundwater catchments on the Heretaunga and Ruataniwha plains.
- On 26 June 2019, the Hawke's Bay Regional Council joined other councils around the country in declaring a climate emergency. The resolution directed staff to:

Strategic Planning

- Provide an annual progress report in relation to existing work and additional future programmes relating to climate change
- Include climate change as a primary factor for consideration in its decision making processes
- Commit to developing a comprehensive programme of work in response to climate change, including regional leadership for climate change awareness and action
- Request staff develop a programme of community engagement on climate change mitigation and adaption
- Direct the Chief Executive to further reduce the Council's greenhouse gas emissions and report annually on progress
- Advocate the Ministry for the Environment to include greenhouse gas emissions in the consenting process under the Resource Management Act.

- In 2018-19, the Hawke's Bay Regional Business Partners team supported over 247 businesses to achieve their business growth objectives; issued $327,300 in Capability Development funding for business training; placed 49 Business Mentors into Hawke's Bay organisations; and linked 62 Hawke's Bay businesses into Callaghan Innovation resources to undertake Research & Development.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Strategic Planning

What we spent

Strategic Planning	Activity (#)	Actual 18/19 ($'000)	Budget 18/19 ($'000)	Actual 17/18 ($'000)
EXPENDITURE				
Operating Expenditure				
Strategy	1	281	204	
Planning	2	2,131	2,618	2,586
Sustainable Regional Development	3	2,237	2,124	2,621
Depreciation/ Amortisation Expense				
Total Operating Expenditure		4,648	4,946	5,208
Capital Expenditure				
Energy Futures Loan Repayments		20		20
Total Capital Expenditure		20	-	20
TOTAL EXPENDITURE		4,668	4,946	10,849
REVENUE				
Activity Revenue				
Direct Charges		-	-	-
Total Activity Revenue		-	-	-
Other Revenue				
Targeted Rates		1,850	1,850	2,342
Grants		274	274	377
Loans Drawn Down		-	-	-
On-Site Waste Water Disposal Loan Repayments		-	-	-
Total Other Revenue		2,124	2,124	2,719
TOTAL REVENUE		2,124	2,124	2,719
TOTAL FUNDING REQUIREMENT		(2,544)	(2,822)	(8,129)
Special Reserve Funding				
Sale of Land (Other Initiatives) Reserve			89	403
Total Special Reserve Funding		-	89	403
NET GENERAL FUNDING REQUIREMENT		(2,544)	(2,733)	(7,726)
MET BY				
General Funding Rates		2,812	2,733	-
Investment Income		1,518	89	1,825
Operating Reserves		(1,786)	(89)	5,901
		2,544	**2,733**	**7,726**

Note: The comparative information has been restated to reflect changes in the activity grouping reported. Refer to page 23 for more detail.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Strategic Planning

Financial Variances Explained

There is an underspend in operating expenditure for the Strategic Planning group as a result of planning processes progressing more slowly than expected, particularly TANK's extended deliberations through the Regional Planning Committee and vacancies in the Planning team.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Strategic Planning

How we did

Strategy Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will keep informed about organisational, local, regional, national and international issues and trends, periodically develop a high quality and relevant Strategic Plan and align the organisation to deliver on strategic outcomes.	Annual reporting to Council on the development and/or implementation of the Strategic Plan to maintain its currency and relevance.	Achieved (New measure)	**Achieved** An information paper was presented to the Corporate and Strategic Committee on 5 June 2019 to update Council on progress with implementing the 2017-2021 Strategic Plan. Attached to the information paper was a Strategic Snapshot which gave a holistic view of council activity at a point in time and demonstrated how the programme of work contributes to achieving the 23 strategic goals from the Strategic Plan.

Planning Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC develops and maintains clear and appropriate policies that promote the sustainable management of the region's natural and physical resources and protects the community from resource management related risks.	Compliance with statutory timeframes for RMA planning documents.	Achieved (New measure)	**Achieved** A statutory timeframe met this year was the adoption of Council's third edition National Policy Statement for Freshwater Management (NPS-FM) Progressive Implementation Plan (PIP). Under Policy E1 (f) of the NPS-FM the PIP had to be formally adopted by 31 December 2018. Regional Council adopted the PIP on 31 October 2018. See Appendix 2 for more detail.
HBRC will proactively work with territorial authorities to achieve alignment on policies, plans and strategies.	Planning managers from HBRC and territorial authorities meet at least twice each year to discuss and identify integration issues; and improvements to content and/or processes for regional and district plans.	2 or more Achieved (Achieved in 2017-18)	**Achieved** Meetings were held with HB council planners on 26 November 2018 and 27 May 2019. The November meeting held at Napier City Council was to discuss potential draft national planning standards for network utility operations. The May meeting was a round table catch-up of the HB Planners Forum on current

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Strategic Planning

			work programmes and an introduction to the new Relationship Manager from Ministry for the Environment. Discussion around other items included: - Further Submissions on plan changes under amended RLAA 2017 - Mana Whakahono ā Rohe on horizon and close inter council liaisons - Marine and Coastal Area Applications (MACAA) into 2020+ - National Monitoring System (NMS) review feedback - National planning standards - Quality planning website rebuild. This performance measure also relates to action 4.4 in the multi-partner *Matariki Hawke's Bay Regional Economic Strategy* - "Ensure regional and district plans take a coherent and consistent approach to regulating common activities". This action is largely focused on TLA building and land use consenting but involves HBRC as all HB councils are joint lead agencies. It is also worth noting that 2019 New Zealand Planning Institute Conference 'Weaving the Strands' took place in Napier 2 - 5 April 2019 providing an opportunity for the HB planning managers to network not only with each other but also with many of their planning counterparts from around NZ.
HBRC will regularly submit on national direction, plan and consenting matters.	Number of submissions on resource management-related proposals made to local and central government per annum.	Maintain 3-year rolling average (6.3 in 2017-18) (New measure)	Achieved 8.7 (3-year rolling average) 12 submissions were made on resource management topics during 2018-19. This compares to 5 in 2017-18 and 9 in 2016-17. Feedback was provided on the Government's Zero Carbon Consultation Document in July 2018 (Q1) and 11 submissions were presented on the Water

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Strategic Planning

			Conservation Order (see table below). The WCO submission and subsequent hearings was a significant investment in time and resources and overspent the statutory advocacy budget.

WCO submissions

TOPIC	FORMAT	DATE	
		STATEMENTS	HEARING
TANK Group's final recommendations	Memo on behalf of Council	30/08/18	
Hydrology	Technical Statement of Evidence	25/01/19	28/02/19
Water quality, indigenous fish habitat	Technical Statement of Evidence	25/01/19	1/03/19
Indigenous fish	Technical Statement of Evidence	25/01/19	1/03/19
Hydrology	Technical Statement of Evidence	25/01/19	1/03/19
Planning	Technical Statement of Evidence	25/01/19	1/03/19
Ecology	Technical Statement of Evidence	25/01/19	5/03/19
Native bird values	Technical Statement of Evidence	5/02/19	1/03/19
HBRC activities and interests	Non-technical Statement of Evidence	15/02/19	28/02/19
Legal	Legal submission provided at the hearing	n/a	1/03/19
Demarcation of Upper and Lower	Memo on behalf of Council	08/03/19	

Sustainable Regional Development Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will co-invest in regional economic development organisations for the benefit of the Hawke's Bay economy.	Funding contracts with approved performance targets and reporting requirements are in place for HB Tourism, Matariki REDs and the Regional Business Partners Programme.	Achieved (Achieved in 2017-18)	Partially Achieved Contracts with performance indicators are in place with Business Hawke's Bay (as part of HBRC's contribution to Matariki REDs) and the Regional Business Partners Programme. An interim funding agreement is in place with HB Tourism and proposed KPIs went to the Corporate and Strategic Committee and Council in June 2019. The KPIs are being further developed and are expected to be adopted in September 2019.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Integrated Catchment Management

What we do

There are three activities within the Integrated Catchment Management Group of Activities:

- Science and Information
- Catchment Management
- Biodiversity and Biosecurity

Why we do it

HEALTHY ENVIRONMENT

This Group of Activities primarily contributes to a Healthy Environment. Integrated Catchment Management activities are a mix of statutory requirements and non-regulatory methods. A combination of both is required to achieve the land and water outcomes set in the Council's Strategic Plan 2017-2021, the National Policy Statement for Freshwater Management and the Regional Resource Management Plan. This approach enables the Council to direct funding and resources in a strategic and prioritised manner based on the specific needs of each catchment, based on the best available science.

What we did

Highlights in 2018-19 for the Integrated Catchment Management group included:

Science and Information:

- Twelve technical reports were published to assist with the TANK Plan Change, and seven Regional Council technical experts provided evidence to the Ngaruroro Water Conservation Order hearing, which was held in the first quarter of 2019.
- A Land Science Regional Wetland Inventory was completed following several years of flying across Hawke's Bay photographing and recording details regarding the region's wetlands. For the first time the Regional Council have a grasp of the extent, type and location of the region's wetlands. This has enabled staff to statisticaly select wetlands to monitor as part of the Council's wetland monitoring programme.
- To reduce winter air pollution the Regional Council has developed, and is currently trialling, an online 'outdoor burning tool'. This helps orchardists know when the conditions are appropriate to light fires by pulling data from the Council's closest monitoring sites. This data includes air quality, wind speed, airshed boundaries and uses air temperature at different heights to indicate whether smoke might be trapped at low levels by a temperature inversion. It then displays a burning status, either "don't burn" or "caution". If it displays "caution" conditions are suitable for burning.
- The Regional Council Land Science team, in partnership with Manaaki Whenua, won an award at the Science New Zealand National Awards for its role in the development of 'S-map', a comprehensive, quantitative online spatial soil database, paving the way to making it a national database.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Integrated Catchment Management

- Visits were made to 98 properties to provide advice around water metering, telemetry and consent requirements. The Irrigation Check Up programme resulted in 60 irrigation systems checked for uniformity and application depth with direction provided on how to improve system application efficiency.
- Hot Spot – Marine: To build a better understanding of our coastal habitats and the effects from land the Regional Council, working with the National Institute of Water and Atmospheric Research and Ministry of Primary Industries, have mapped the seafloor of the Wairoa Hard and Clive Hard. The mapping feeds into a roadmap developed to address cumulative effects on coastal environments.
- Hot Spot - Te Waiū o Tūtira: As part of this project Environmental Farm Plans have been completed for five properties which cover an area of 927 hectares (ha). Nutrient budgets associated with these Environmental Farm Plans have been carried out over 770 ha. Farm works that have been implemented as a consequence of developing these farm plans this year included the retirement and planting of 4.8 ha of wetland and riparian areas. Approximately 5900 native plants have been planted.
- Hot Spot – Ahuriri: An aerial survey of Ahuriri Estuary was completed. This will enable assessment of the volume of the invasive worm Ficopomatus enigmaticus currently in the estuary and help to assess the effectiveness of the mechanical removal programme currently underway. Fencing of 4,100 metres of waterways, wetlands and estuary margin has been completed. Annual planting this year includes 14,936 native plants from the riparian plant programme and 240 poplar and willow poles.
- Hot Spot – Lake Whatuma: Key stakeholders and iwi agreed a collaborative approach to understand local community and iwi vision and values for the lake. Discussions also include potential opportunities around lake ownership and management approaches to long term protection and enhancement of Lake Whatuma.
- Hot Spot – Whakakī: In June 2019, a five-year project to revitalise Whakakī Lake, north-east of Wairoa, was granted $1.38 million from the Government's Freshwater Improvement Fund (FIF) to accelerate existing efforts. The project's total investment is over $3 million and aims to revitalise the taonga of Whakakī Lake, so tuna are fit for consumption and people can access the lake and swim safely.

Catchment Management

- The Regional Council introduced an Erosion Control Grant Scheme, which provides a 75% subsidy to landowners for erosion mitigations such as fencing, planting and reversion. Staff have worked with landowners to complete 69 erosion control plans which relate to $2.3 million of total works on the ground, $1.7 million of that is being funding by the Council.
- In the first quarter of 2019, Te Uru Rākau (Forestry New Zealand) announced funding of $5 million over four years through the Hill Country Erosion Fund to protect erosion-prone hill country across the Hawke's Bay region, further supporting us to achieve our strategic goals.
- Approximately 370,000 plants have been planted this winter. Through a number of initiatives the Council has been working across Hawke's Bay alongside the community, Tāngata Whenua and private landowners on this year's planting programmes.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Integrated Catchment Management

Biodiversity and Biosecurity

- In July 2018, Predator Free Hawke's Bay was launched with the announcement of a $1.6 million kick-start in funding from the government. Signficant progress was made in the first phase of the $4.86 million project in our wide scale predator control and ecological restoration project at Whakatipu Mahia, which is the largest mainland possum eradication programme ever undertaken in New Zealand. This work, if successful, will help provide the template to deliver a regional possum eradication programme which has the potential to be transformational for biodiversity within the region.
- In October 2018, the Whangawehi Catchment Management Group from Mahia won a prestigious Asia Pacific International River Prize Award. Under a community-led catchment management plan, the Group has helped landowners to fence off their waterways, revegetate river margins, better manage their soil by establishing soil conservation areas planted in trees and carry out pest control work.
- From October 2018, the HeatSmart programme was extended to include domestic solar heating, double glazing, water storage, septic tanks and ventilation, in addition to clean heating and insulation. The programme was relaunched as Sustainable Homes and is available across the region. It enables eligible ratepayers to borrow up to $20,000 at 4% from the Regional Council for assistance to improve resilience in an emergency, to reduce energy consumption and reduce leachates. Ratepayers are able to repay the money over ten years by way of a voluntary targeted rate.
- In February 2019, the Regional Pest Management Plan became operative. The new plan is a big step forward from the previous plan, with the inclusion of 11 new pest plants, inclusion of feral goat, predator, and possum eradication programmes, tightening of programme rules and for the first time a marine pest exclusion programme aimed at preventing invasive marine pests from establishing in Hawke's Bay. The inclusion of large scale possum eradication areas for farmland is a first for a Regional Pest Management Plan in New Zealand.
- The Regional Council, in partnership with the Hawke's Bay Biodiversity Foundation and Guardians, successfully identified priority ecosystems, with 13 of these sites now being under active management.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Integrated Catchment Management

What we spent

Integrated Catchment Management	Activity (#)	Actual 18/19 ($'000)	Budget 18/19 ($'000)	Actual 17/18 ($'000)
EXPENDITURE				
Operating Expenditure				
Science and Information	1	9,617	8,825	9,123
Catchment Management	2	5,799	4,464	4,267
Biodiversity and Biosecurity	3	4,535	4,047	3,161
Depreciation/ Amortisation Expense		471	444	415
Total Operating Expenditure		20,422	17,780	16,966
Capital Expenditure				
Clean Heat Advances		1,925	2,700	1,811
Regional Park Network		65	160	561
Tangoio Soil Conservation Reserve Forestry			-	
Biodiversity			100	-
Integrated Catchment Activities		161	2,000	1,835
Public Good Capital Purchases			-	
Loan Repayments - Regional Park Reserve		2,590	2,860	
				-
Total Capital Expenditure		4,741	7,820	4,207
TOTAL EXPENDITURE		25,164	25,600	21,173
REVENUE				
Activity Revenue				
Direct Charges		3,446	4,181	2,568
Total Activity Revenue		3,446	4,181	2,568
Other Revenue				
Targeted Rates		3,365	3,197	3,055
Community Loan Repayments		1854	1,882	1,811
Interest on Scheme Reserves		63	27	138
Grants		599	82	1,456
Loans Drawn Down		1,465	4,960	2,655
Total Other Revenue		7,346	10,148	9,115
TOTAL REVENUE		10,792	14,329	11,683
TOTAL GENERAL FUNDING REQUIREMENT		(14,372)	(11,271)	(9,490)
Special Reserve Funding				
Specific Scheme Reserves		3,607	862	(202)
Sale of Land (Non-investment) Reserve		263	270	389
Total Special Reserve Funding		3,870	1,132	187
NET GENERAL FUNDING REQUIREMENT		(10,502)	(10,139)	(9,303)
MET BY				
General Funding Rates		-	-	-
Investment Income		6,449	9,849	6,320
Operating Reserves		4,053	290	2,983
		10,502	10,139	9,303

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Integrated Catchment Management

Note: The comparative information has been restated to reflect changes in the activity grouping reported. Refer to page 23 for more detail.

Financial Variances Explained

Operating costs exceed budget in all areas, $900,000 of which relates to the Erosion Control Scheme which was budgeted as capital expenditure for the 2018-19 financial year (changed in the 2019-20 Annual Plan). There was a genuine overspend in catchment management with the remainder of the increased operating expenditure being the result of higher than budgeted allocation of internal overheads.

A delay in capital projects resulted in greater staff time spent on internal projects for which time and cost is associated.

Capital budgets for delayed projects carried forward to the 2019-20 year within Integrated Catchment are Regional Groundwater Research $430,000 and $175,000 for an Environmental Data Management System. Both projects were unable to be progressed due to a lack of internal resource and organisational changes.

The capital budget for Clean Heat advances was the provision of a funding mechanism for the procurement of compliant heating options to be repaid via Voluntary Targeted Rates. The take up of the programme was as expected however many chose not to borrow for the service.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Integrated Catchment Management

How we did

Science and Information Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will monitor and provide accurate and timely information to decision makers and the community on the State of the Environment (SOE) for Hawke's Bay.	Council maintains its International Organisation for Standardisation (ISO) 9001-2018 accreditation for data collection, analysis and storage.	Achieved (Achieved in 2017-18)	Achieved Revalidation of ISO 9001:2015 was achieved in November 2018. The purpose of the 4-day (3-yearly) revalidation assessment was to determine the capability and effectiveness of the Environmental Science, Environmental Information, Consents, Compliance and Harbour Master sections to ensure continual compliance with customer, statutory and regulatory requirements; meeting our specified objectives; and conformity of the management system to stated criteria. No non-conformances were raised.
	SOE monitoring programmes are in place and results are published on HBRC and LAWA (Land, Air, Water Aotearoa) websites for: • Climate and Air Quality • Surface water • Groundwater • Land Science • The Coast.	Achieved (Achieved in 2017-18)	Achieved During the year monitoring programmes ran to plan and relevant data was published on appropriate websites. Regional Council has provided all data required for the LAWA modules and met the due dates for LAWA refreshes. The HBRC website environmental data area has been refreshed and now displays data in a more user-friendly way. The source of the data is aligned with that used for LAWA, meaning we are reducing the maintenance requirements, improving consistency and improving our communication by being able to feed data to automated dashboard pages such as for the Papanui and Tukituki.
	A 5-yearly State of the Environment (SOE) Monitoring Report is produced along with annual scorecards and monthly updates. Results are made available primarily through digital media and summarised in the Annual Report.	Achieved (Achieved in 2017-18)	Partially Achieved Monthly reports were delivered as scheduled. Annual report cards have been produced. The 5-yearly SOE summary report and technical reports are in production, but delivery has been delayed until December 2019 due to unanticipated data analysis and quality assurance required.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Integrated Catchment Management

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will undertake targeted science research and investigations on matters relevant to policy development to inform the Council and stakeholders.	The Science team develops and implements an annual work programme in line with plan change requirements.	Achieved (New measure)	Achieved During the year, the Science team developed and implemented 20 Project Briefs to drive their year's work. Together these formed the annual work programme. The key plan changes supported by the Science team were the Water Conservation Order, TANK Plan Change, Plan Change 6 (Tukituki) implementation and Mohaka Plan Change activities.
HBRC will reduce harmful air pollution and comply with the National Environmental Standard (NES) for Air Quality.	Number of exceedances of PM10* in the Napier and Hastings airsheds.	Napier 1 Hastings 3 (Napier 1 Hastings 2 in 2017-18)	Partially Achieved Napier 0 Hastings 4 To meet the NES the Napier airshed must have no more than 1 exceedance by 2016, the Hastings airshed must have no more than 3 exceedances by 2016 and no more than 1 exceedance by 2020.
	Number of clean heat systems installed annually under financial assistance programme.	1000 per annum (on average over 10 years) (10,402 by 30 June 2018; 1022 in 2017-18)	Achieved 11,203 by 30 June 2019 2018-19: 801 The HeatSmart programme started in 2009 with an objective of replacing 10,000 fires over 10 years (an average of 1000 per year). The programme target has been exceeded with more than 11,000 fires replaced and 13,500 packages in total (including insulation) therefore the result is recorded as Achieved. The programme is currently in its 10th year and been extended to 2023. However, the uptake of packages is expected to be lower over the next 3 years.

*PM10 are tiny airborne particles smaller than 10 micro-metres in size. High concentrations of PM10 are in the smoke from fires and increase the risk of respiratory and cardiovascular illnesses, including cancer. The government has set a National Environmental Standard (NES) for PM10 at an average concentration of no more than 50 μg/m³ measured in open air over 24 hours.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Integrated Catchment Management

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will encourage efficient and effective water use to maximise the benefits of the water allocated and comply with regulations under the RMA for measuring and reporting water takes.	Percentage of consent holders with water meters operating using telemetry or web/text systems.	90% (84% in 2017-18)	**Achieved** 93% Of the water meters in use 93% are returning data via web or telemetry. Note: 8% of consent holders have wells with a security seal (tamper tag) fitted. These wells are not in use. The security seal allows us to confirm that they have not been used.
	Total water consented as a percentage of the allocation limit for each significant water resource. 1. Esk 2. Karamū 3. Ngaruroro 4. Maraekakaho 5. Nuhaka 6. Raupare 7. Tūtaekurī 8. Tūtaekurī-Waimate 9. Tukituki Note: Additional rivers will be added as allocation regimes are set through catchment based plan changes to give effect to NPS FM.	For catchments at or below allocation when limit set the target is: **Less than or equal to 100%.** For fully allocated catchments when limit set the target is: **Decreasing trend towards less than or equal to 100%.** (New measure)	**Achieved** 100% for Surface water in Tukituki 50% for Groundwater stream depleting takes in Tukituki. Tukituki is the only catchment with a rule-based limit set since the NPS-FM came into effect and is less than or equal to 100% for the total catchment for surface water and groundwater stream depleting takes (see table below). The TANK Plan Change will address how the allocation, particularly from stream depleting groundwater, is to be counted in the next catchment to come under the NPS-FM. In the meantime, no more water will be allocated from the surface low flow allocation block or groundwater from over allocated catchments.

Tukituki Allocation

	Total allocated (L/s)		Total limit (L/s)		Percentage of the allocated limit (L/s)	
	Surface water	GW stream depleting	Surface water	GW stream depleting	Surface water	GW stream depleting
Zone 1 - Lower Tukituki	529	114	519	412	101.9%	27.7%
Zone 2 - Waipawa River	643	173	643	269	100.0%	64.3%
Zone 3- Upper Tukituki	758	409	763	716	99.3%	57.1%
Total for catchment	**1930**	**696**	**1925**	**1397**	**100.3%**	**49.8%**

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Integrated Catchment Management

Catchment Management Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will partner with Tāngata Whenua and community groups in identified priority areas to achieve land and water outcomes.	Annual reporting to Council on engagement, actions and impacts within priority areas.	Achieved (Achieved in 2017-18)	Achieved Reporting on the priority areas within the 3 catchment zones was completed at the Environment and Services Committee on 19 June 2019. All activity over the preceding 12 months in the relative catchments was presented, including itemised reporting on Tāngata Whenua engagement. At the same meeting we also outlined our respective business plans for the following 12 months.
HBRC will work with farmers, growers and industry to transfer knowledge on environmental risks and impacts, and support the adoption of good management practice on-farm to achieve smart, sustainable land use.	Percentage of land area (by catchment) that operates under a Farm Environment Management Plan (FEMP) or an independently audited industry good management practice framework as required under the Regional Resource Management Plan (RRMP).*	Tukituki-100% (New measure)	Partially Achieved 96% (by land area) The number of FEMPs within the Tukituki catchment increased from 542 in July 2018 to 1010 in June 2019. This significant increase was due to regulations coming into force as well as a new dedicated resource and ongoing presentations to industry and small farmer groups. It also built on the momentum initiated in previous years through education, advocacy and relationship building by catchment management staff. The 100% target relates to the rules set by the Board of Inquiry. The small number of non-compliant farms are being dealt with by the consents and compliance teams.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Integrated Catchment Management

HBRC will encourage through subsidy, education, working with industry and recording and reporting riparian planting and fencing, wetland protection and afforestation to improve soil conservation and water quality.	Additional area of highly erodible land planted in trees (ha).	2000 ha of land under cover (New measure)	**Not measured** This was the first year of a 10 year programme of work. The first 6 months saw the 3 zone teams (Northern, Mid and Southern) established and operating guidance and criteria to deliver the Erosion Control Scheme (ECS) developed. Reporting tools were also in construction, along with an interim 'tracker/EROS' to record works on the ground and their financials. End state reporting and data management systems are still in development. HBRC are currently finalising how to measure performance against this outcome in GIS and CRM (recording and reporting systems).
	Additional kilometres of riparian margin protected annually to reduce sediment, nutrient and/or bacterial contamination of water.**	100km (New measure)	**Not measured** HBRC are currently finalising how to measure performance against this outcome in GIS and CRM (recording and reporting systems).

* Other catchments will be added as new management regimes are set through catchment based plan changes to give effect to NPS FM.

**Includes streams, drains, wetlands, lakes, estuaries and the coast.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Integrated Catchment Management

Biodiversity and Biosecurity Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will work with partners and stakeholders to implement the HB Biodiversity Strategy and Action Plan so biodiversity is enhanced, healthy and functioning.	Additional number of targeted priority sites where biodiversity is actively managed.	1-2 (New measure)	Achieved 13 Management actions were undertaken at 13 selected sites. This is well above the target of 1-2 sites p.a. of additional sites which reflects that this is the first year of the programme and from now on sites will be cumulative. This result has also been made possible via partnerships with Catchment Management, Engineering/Open Spaces, and external parties such as Native Forest Restoration Trust, Forest & Bird and Biodiversity Hawke's Bay.
HBRC will undertake research, and implement and review regional pest management plans that improve biodiversity, human health and economic prosperity.	Maintain and implement current Regional Pest Management Plan.	Achieved (Achieved in 2017-18)	Achieved The Regional Pest Management Plan became operative in February 2019.
HBRC will provide effective pest management programmes that improve regional biodiversity, human health and economic prosperity.	Percentage of monitored Possum Control Areas (PCAs) with a 5% or less trap catch.	90% (The average residual trap catch (RTCI*) index for the 2017-18 season was 1.6% across the 37,843 hectares monitored with 91.66% of the 18 PCAs monitored below a 5% RTC.) (note this measure changed in 2018-19 and the previous year's result has been restated using the new methodology)	Achieved 100% The average RTCI* index for the 2018-19 season was 1.5% across the 85,932 ha monitored with 100% of the 18 PCAs monitored below a 5% RTC.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Integrated Catchment Management

	Decreasing trend in the number of active rook nests.	Achieved Decreasing trend 5-year rolling average (362.2 in 2017-18)	Achieved 307.2 5-year average Aerial rook control has been carried out and completed in all known rookeries across the region with a total of 45 active nests aerial treated across the eradication zone north of SH5 and 223 across the control zone south of SH5.
	Percentage of animal pest enquiries responded to within target timeframe. (5 days for rabbits).	100% (100% in 2017-18, 54 rabbit enquiries)	Achieved 100% A total of 68 rabbit enquiries have been received and responded to within 5 working days of receiving the initial call. Assistance and or advice was provided as appropriate.
	Percentage of plant pest inspections and actions completed within target timeframes (see schedule for specific plant pests**).	100% (New measure)	Achieved **100%** All known sites of African feather grass, Goats rue, Nassella tussock, Spiny emex, White edged nightshade and Yellow water lily checked and controlled. No Yellow water lily found, this plant may now be eradicated. Two sprays of all Phragmites sites done, only two new sites found. All Privet complaints dealt with. Japanese honeysuckle control completed around Lake Tūtira and all Old man's beard sites checked and controlled in control area. Pinus contorta programmes in conjunction with MPI in "Kaimanawa management unit" completed. Control work started on dense iwi block adjacent to SH5 in Rangitaiki near the Waipunga Falls. Woolly nightshade rural and urban control programmes completed. Some targeted Chilean Needle Grass (CNG) Taskforce spraying completed. New sites of CNG found down the Tukituki river.

*Residual trap catch index (RTCI) is a standardised method for estimating relative densities of possums. RTCI is the percentage of trap-nights in which a possum was captured.

****Plant Pest Schedule**

The RPMP defines a Total Control plant pest as one that is of limited distribution in the region, and the long-term goal is its eventual eradication. Seventeen plants are listed as Total Control plant pests. The RPMP places these into two categories, Service Delivery and Occupier Responsibility. For each of these plant categories the Biosecurity Pest Plant team's Operational Plan provides a brief description of what activities HBRC will undertake to achieve the RPMP objectives and by when.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Asset Management

What we do

There are five activities within the Asset Management Group of Activities

- Flood Protection and Control Works[3]:
- Flood Risk Assessment and Warning
- Coastal Hazards
- Open Spaces
- Works Group

Why we do it

This Group of Activity primarily contributes to the following community outcomes:

The aim of this activity is to reduce the likelihood of damage from flooding on people, property, productive land and businesses, which provides long-term benefits to our economy.

The aim is also to contribute to a vibrant community by providing public access to HBRC managed waterway environments, the coast and open spaces for recreation and enjoyment, and where appropriate enhancing amenity values, protecting sites of cultural significance, and identifying and valuing them for public education and interest.

The empowering legislation for this Group of Activities is the:

- Soil Conservation and Rivers Control Act 1941
- Land Drainage Act 1908
- Local Government Act 2002
- Civil Defence Emergency Act 2002
- Resource Management Act 1991.

In addition to the legislative mandate and responsibility, these activities are undertaken by the Regional Council because it has the necessary river engineering skills, historical understanding and regional overview required to integrate and manage large-scale schemes. The flood protection schemes, in particular, impact on a wide area, so a consistent approach across the region to their management is important. A consistent regional approach is also relevant to coastal hazards and open spaces.

[3] This activity is the mandatory "Flood Protection and Control Works" Group of Activities as required under Schedule 10(2) of the Local Government Act 2002.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Asset Management

What we did

Highlights in 2018-19 for the Asset Management group included:

Flood Protection and Control works

- A review of Marae and Urupa on the Wairoa River was completed to investigate the impact of river erosion on these sites. Following this report protective plantings have been scheduled for a number of locations on the Wairoa River.
- In early 2019, planning for the dredging of lower Clive River started. Community engagement with residents and key stakeholders will be undertaken and resource consent needs to be granted before dredging can start. The aim of the dredging is to remove sediment and increase water depth, channel storage capacity, whilst enhancing this reach of the Clive River for recreational use. The lower Clive River dredging was previously successfully completed in 1997 and 2009.
- Maintenance of the flood protection and drainage schemes was completed as planned. HBRC administers 25 flood control and drainage schemes throughout the region.

Coastal Hazards

- The Regional Council has been, and continues to, work directly with Napier and Hastings councils, iwi and the community on Coastal Hazards - a long-term project to better understand causes and effects of coastal hazards such as coastal inundation (flooding by the sea) and coastal erosion to find solutions to reduce their impact. Coastal hazard risk is expected to increase due to climate change projections of increased storm intensities and sea level rise. A final report by the Northern and Southern Cell Assessment Panels delivered to the Joint Committee in February 2018 outlines the panel's process and presents their 100-year adaptive pathway for nine priority units along the Clifton to Tangoio coastline.

Open Spaces

- In July 2018, a community planting event in Twyford was held as part of the plan to restore Raupare Stream, associated with the local irrigation take consent. The stream is part of the Karamū Stream catchment and the Raupare Enhancement Strategy which sets targets to enhance a 20km length of the upper Raupare catchment and improve water quality. The planting programme aims to develop a native bird corridor and instream habitats, while continuing to provide flood capacity drainage for the high value production land, access for maintenance and work in with surrounding cropping land.
- In 2019, planning started for the harvesting all of the Tūtira Forest and 95 hectares of the Tangoio Soil Conservation Reserve. The forests were planted in the 1990s for the primary purpose of erosion control, and the secondary purpose of financial returns on harvest. Harvesting is expected to start in 2021.
- Earthworks were completed for the new wetland at Waitangi Regional Park and a community planning day was held in June 2019. The aim is to provide another haven for fish and birdlife and to also increase the amount of habitat in an important whitebait spawning area. The new wetland is next to the Horseshoe Wetland created in the regional park by the Regional Council in 2009 and sits in the flood plain of the Tūtaekurī and Ngaruroro Rivers, near the coast at Awatoto. The project

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Asset Management

was funded and constructed in a partnership with Te Wai Mauri Trust, Ngāti Kahungunu Iwi Incorporated, Napier Port and the Regional Council which manages the project for the long term.

- Phase 2 development of Hawea Historical Park has progressed well in 2018-19 with the formation of the Hawea Historical Park Management Committee and the development of a koru-shaped wetland which was completed in May 2019. The Committee includes representatives from the four hapu; Nga hapu o Kohupatiki, Matahiwi, Ruahapia and Waipatu, along with Hawke's Bay Regional Council officers. The Regional Council and the hapu have an equal partnership to provide sustainable co-governance and co-management of the ownership and management of the park.

Works Group

- Works Group completed a sheetpile retaining wall on the Wairoa River to protect a new playground facility constructed by Wairoa District Council from river erosion.

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Asset Management

What we spent

Asset Management	Activity (#)	Actual 18/19 ($'000)	Budget 18/19 ($'000)	Actual 17/18 ($'000)
EXPENDITURE				
Operating Expenditure				
Flood Protection & Control Works	1a, b & c	6,179	6,580	6,503
Flood Assessment and Warning	2	710	642	569
Coastal Hazards	3	921	757	890
Open Spaces	4	1,409	1,458	1,126
Works Group External Contracts	5	1,304	446	714
Depreciation/ Amortisation Expense		686	648	657
Total Operating Expenditure		11,209	10,531	10,460
Capital Expenditure				
Infrastructure Asset Construction		1,055	3,307	934
Disaster Damage Excess Deposits				111
Loan Repayments		122	124	262
Total Capital Expenditure		1,177	3,431	1,307
TOTAL EXPENDITURE		12,386	13,962	11,767
REVENUE				
Activity Revenue				
Direct Charges		1,534	1,474	1,550
Operations Group External Contracts		1,440	559	855
Total Activity Revenue		2,974	2,033	2,405
Other Revenue				
Targeted Rates		6,912	7,081	6,864
Grants and Other Capital Income		-	-	-
Interest on Scheme Reserves		177	267	194
Loans Drawn Down		-	-	-
Total Other Revenue		7,089	7,348	7,059
TOTAL REVENUE		10,063	9,381	9,464
TOTAL FUNDING REQUIREMENT		(2,324)	(4,581)	(2,303)
Special Reserve Funding				
Specific Scheme Reserves		174	301	(636)
Scheme Depreciation Reserves		118	1,280	104
Sale of Land			-	-
Regional Disaster Reserves		-	-	-
Total Special Reserve Funding		292	1,581	-532
NET GENERAL FUNDING REQUIREMENT		(2,032)	(3,000)	(2,835)
MET BY				
General Funding Rates		-	-	-
Investment Income		1,225	2,277	1,031
Operating Reserves		807	723	1,804
		2,032	**3,000**	**2,835**

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Asset Management

Note: The comparative information has been restated to reflect changes in the activity grouping reported. Refer to page 23 for more detail.

Financial Variances Explained

The works group exceeded both revenue and expenditure compared to budget with a favourable net result driven by increased utilisation of Works Group services by both internal and external clients. The favourable net result is due to positive margins on external contracts. Works Group provides all in-house and internal services at cost to the Council.

The most significant variance within Asset Management is an under-spend in Infrastructure Asset Construction of $2.2 million. This group was under resourced for much of the year. The capital budget has not been carried forward as feasibility work will continue through the next 12 months to more effectively inform the next Long Term Plan.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Asset Management

How we did

Flood Protection and Control Works (Rivers) Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will maintain an effective flood control network that provides protection from frequent river flooding to communities and productive land within designated flood protection schemes in the Heretaunga Plains and Ruataniwha Plains.	The major flood protection and control works that are maintained, repaired and renewed to the standards defined in the relevant scheme Asset Management Plan and annual works program.	Achieved (Achieved in 2017-18)	**Achieved** Our major flood protection and control works that are being maintained, repaired and renewed to the standards defined in the relevant scheme Asset Management Plan. Planned annual maintenance works were executed.
	Changes to flood levels of protection* are consulted on with the affected communities and delivered within agreed timeframes. *Current levels of protection are 1% Annual Exceedance Probability (AEP) (1:100 year return period) for both Heretaunga Plains and Upper Tukituki Schemes.	Heretaunga Plains: Phased design and construction Upper Tukituki: Consultation on change to 0.2% AEP (Partially achieved for HPFCS in 2017-18; no measure for Upper Tukituki)	**Not Achieved** Level of service reviews to assess options for raising the current level of flood protection from 1% to 0.2% AEP are behind target owing to severe staff shortage during this reporting period and more information resulting in the targets now being unachievable. With staff now in place the review of the Heretaunga Plains Flood Control Scheme (HPFS) is a top priority project for 2019-20. The focus will be on hydraulic modelling and cost benefit analysis for physical works and options analysis. There is 2-3 years of planning and design required prior to any construction commencing. Once options analysis, planning and design are completed for HPFCS we will commence a review of the Upper Tukituki.

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Asset Management

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will protect and enhance the scheme's riparian land and associated waterways administered by the Regional Council for public enjoyment and increased biodiversity.	The ecological function of urban streams is maintained or enhanced (source: 6-yearly rolling review and Ecological Valuations of River Ecological Management and Enhancement Plans (EMEP).	Achieved (New measure)	**Not measured** No survey (or ecological valuation) was undertaken this year but tasks associated with targets within the EMEP are progressing. This includes river bird surveys, pre gravel extraction inspections and writing a new Standard Operating Procedure for eel rescue.

Flood Protection and Control Works (Drainage) Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will maintain an effective drainage network that provides drainage outlet for rainfall runoff for communities and productive land within the drainage scheme.	Number of reported incidences of out- of-channel flooding lasting more than 24 hours for the design rainfall runoff and lesser events.	Zero (New measure)	**Achieved** No incidences were reported.

Flood Protection and Control Works (Small Schemes) Activity

Level of Service Statement	Level of Service Measures	Performance Target (previous year's AR result)	Performance Result
HBRC will maintain an effective flood control and drainage network that provides protection from frequent flooding to communities and productive land within designated Scheme areas, including: - Makara Flood Control - Paeroa Drainage - Porangahau Flood Control - Ohuia – Whakakī Drainage - Esk River - Whirinaki Drainage - Maraetotara - Te Ngarue - Kopuawhara Flood Control - Poukawa Drainage - Kairakau	Flood protection and drainage networks are maintained, repaired and renewed to the key standards defined in the Scheme Asset management plan and annual works program.	Achieved (New measure)	**Achieved** Our flood protection and drainage networks are maintained, repaired and renewed to the key standards defined in the Scheme Asset management plan. Planned maintenance works were all executed.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Asset Management

Flood Risk Assessment and Warning Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC provides reliable warning of flooding from the region's major rivers to at risk communities in the Wairoa, Tūtaekurī, and Ngaruroro and Tukituki areas.	Percentage of time that priority telemetered rainfall and river level sites are operational throughout the year.	98% (New measure)	**Achieved** 98.06% Priority sites were operational 8,590 days out of a total of 8,760 days.
Council provides accurate and timely flood forecasting information online to advise the community on likely rainfall and flooding.	Percentage of the region (at risk of flooding from large rivers) covered by a flood forecasting model.	70% (New measure)	**Achieved** The area of these catchments cover about 70% of the entire region (see map below). Flooding from the rivers in these catchments could cause large economic loss. Modelling is focused on the lower reaches of these major river systems.

River flood forecasting models.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Asset Management

Open Spaces

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will maintain, develop, and provide public access to existing Council owned regional parks and investigate affordable new opportunities for public enjoyment of open space for multi-purpose benefits.	Regional parks are managed to the key standards defined in Individual Park Plans (IPPs) where present and / or the HBRC Regional Park Network Plan.	Achieved (New measure)	Achieved Maintenance contracts are in place and maintenance schedules are clear in these documents. Draft IPPs complete for Waitangi Regional Park, Pakowhai Regional Park, Pekapeka Regional Park and Tūtira Regional Park

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Consents & Compliance

What we do

There are three activities within the Consents and Compliance Group of Activities:

- Consents
- Compliance and Pollution Response
- Maritime Safety

These activities cover the Hawke's Bay Regional Council's regulatory functions for resource use management and safe navigation of the region's navigable waters.

Why we do it

This Group of Activities seeks to balance the requirement to safeguard the environment for future generations while providing for the social, economic and cultural needs of the wider community.

This activity includes the processing of resource consents required under the HBRC's Regional Resource Management Plan, Regional Coastal Environment Plan or through National Environment Standards, and advice and education on resource management matters. This activity also involves consent monitoring and enforcement of any non-compliance, and acting on environmental complaints, incidents and breaches.

The Marine Safety activity monitors and enforces the Navigation and Safety Bylaw and provides navigation aids to ensure the region's navigable waters are safe for people to use. Through the Harbourmaster the Regional Council provides advice and education to commercial and recreational users and the community at large on water safety and safe boating.

This Group of Activities contributes to the following community outcomes:

The empowering legislation for these regulatory functions include the:

- Resource Management Act 1991
- Local Government Act 2002
- Soil Conservation and Rivers Control Act 1941
- Building Act 2004
- Marine and Coastal Area (Takutai Moana) Act 2011
- Hazardous Substances and New Organisms Act 1996
- Maritime Transport Act 1994.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Consents & Compliance

What we did

Highlights in 2018-19 for the Consents and Compliance group included:

- In November 2018, the replacement regulatory management information system, IRIS (Integrated Regional Information System), went live for Consents and Compliance, and Incidents and Enforcements went live in February 2019.
- In November 2018, the Consents and Compliance sections and Harbourmaster (Maritime Safety activity) completed a four-day (three-yearly) revalidation assessment of their ISO 9001:2015 certification. This gives confidence that the work carried out by these teams meets an international standard.

Consents

- A total of 455 resource consents were processed during the year, compared with 438 in the previous year. 100% were processed within statutory timeframes.
- Notified consents related to the Pan Pac coastal outfall in Whirinaki and construction of a new wharf at Napier Port, with associated channel dredging and sediment disposal, were issued. A highlight is that no appeals were received on the Napier Port consent.
- Work has continued on consent applications related to Wairoa's waste water discharge, Tranche 2 Ruataniwha groundwater consents, Te Mata Mushroom's site expansion and alternative site, Silver Fern Farms and about 220 expired/replacement water take applications in the unconfined aquifer area of the Heretaunga Plains.
- Increased consent activity in the Tukituki Catchment resulting from Plan Change 6 (due to come into full effect in June 2020). More than 300 land use consent applications need to be lodged in advance of this date. Preparatory work has included establishing procedural guidelines, application forms and guidance, sub-catchment science reports, sub-catchment meetings, Farm Environment Management Plan data management and audits.
- During the 2018-19 FY, 128 notices, 24 consent applications and 104 permitted activity advices were received under the National Environmental Standards for Plantation Forestry (NES-PF) which came into force on 1 May 2018. Of these, multiple activities e.g. harvesting, earthworks and river crossings, have been bundled into one notice. Site visits found generally very good systems in place to control forestry environmental risk. An aerial survey of forestry activities showed no significant non-compliance.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Consents & Compliance

Compliance and Pollution Response

- 3,198 out of 3,519 resource consents, or 90.9%, were monitored during the year, compared to 94% in the previous year.
- Compliance and enforcement activity remained busy with a total of 1,116 calls to the pollution hotline compared with 1,095 calls last year (a 2% increase). Calls by type included 660 Air (696 last year), 54 Coastal (56 last year), 13 Groundwater (16 last year), 237 Land (97 last year), 151 Surface Water (224 last year), and one Maritime Safety (six last year). Forty abatement notices were issued (compared with 46 last year), 101 infringement notices were issued (92 last year) and four prosecutions (five last year). Enforcement of annual winter burning restrictions was a focus.
- In December 2018, Hawke's Bay dairy farmers who consistently achieved full compliance with their resource consents were recognised at the dairy Compliance Awards. Thirty-four farms maintained full compliance for at least five consecutive years to achieve or maintain a Gold award status. 13 farms with four years' consecutive compliance were at the Silver tier, and 7 farms with three years' compliance at the Bronze tier.
- In May 2019, investigations for PFAS (per- and poly-fluoroalkyl substances) in drinking and ground water surrounding the Hastings Fire Station were undertaken by the HBRC. No detectable levels were found in any samples taken. The investigations were undertaken to determine if historical use and storage of firefighting foam had impacted the underlying aquifer. PFAS are a class of man-made chemicals that have been used since the 1950s in the production of a wide range of products that resist heat, stains, grease and water, including specialised firefighting foam. In the late 1990s they were identified as substances of environmental concern. Investigations are ongoing at the fire station and any further testing will be undertaken on a risk based approach.
- The HBRC undertook two oil spill exercises as required under the Council's agreement with Maritime NZ and by the Maritime Transport Act. Both field-based exercises were centred around a vessel spilling oil either in the Napier Port or near to the Port which required different clean-up methods. The emphasis was on the response team being familiar with the response equipment under different scenarios.
- In July 2019, aerial monitoring of the region's farming operations to check for over-stocking or that winter grazing practices meet land use rules found all properties complied. The Regional Council has 16 resource consents for feedlots, with 15 of those active and one which was not active this year.

Maritime Safety

- In September 2018, the updated Navigation and Safety Bylaw came into force. This includes a new requirement for all jet skis to be registered with the Regional Council or another council before they can be used in Hawke's Bay waters. A six-digit number must be displayed on either side of the ski, which makes jet skis easier to identify.
- Steel piles were installed in to the sea bed 200 metres off the beach at Mahia and Onepoto (Taylor's Bay) for speed restriction markers. These withstand the weather extremes better than buoys and have been very effective in reducing the number of nuisance calls of boats speeding too close to swimmers.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Consents & Compliance

- There has been an ever-increasing number of passenger ships calling at Napier and also an increase in the size of some of the container ships. The planned new wharf will help accommodate the ships, as the Harbourmaster often has to close some of the berths to allow for safer vessel manoeuvring.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Consents & Compliance

What we spent

Consents and Compliance	Activity (#)	Actual 18/19 ($'000)	Budget 18/19 ($'000)	Actual 17/18 ($'000)
EXPENDITURE				
Operating Expenditure				
Consents	1	1,754	1,824	1,314
Compliance & Pollution Response	2	2,227	2,444	1,714
Maritime Safety	3	72	68	390
Depreciation/Amortisation Expense		4	-	3
Total Operating Expenditure		4,057	4,336	3,421
TOTAL EXPENDITURE		4,057	4,336	3,421
REVENUE				
Activity Revenue				
Direct Charges		1,904	2,589	1,384
Total Activity Revenue		1,904	2,589	1,384
Grants			67	-
Total Other Revenue		-	67	-
TOTAL REVENUE		1,904	2,656	1,384
TOTAL FUNDING REQUIREMENT		(2,153)	(1,680)	(2,037)
TOTAL GENERAL FUNDING REQUIREMENT		(2,153)	(1,680)	(2,037)
Special Reserve Funding				
Other Reserve Funding		-	-	247
Total Special Reserve Funding		-	-	247
NET GENERAL FUNDING REQUIREMENT		(2,153)	-	(1,790)
MET BY				
General Funding Rates		1,370	1,294	2,490
Investment Income		1,285	385	1,298
Operating Reserves		(502)	1	(1,998)
		2,153	**1,680**	**1,790**

Note: The comparative information has been restated to reflect changes in the activity grouping reported. Refer to page 23 for more detail.

Financial Variances Explained

Both expenditure and revenue within the compliance function was less than budgeted for the year. Compliance monitoring expense was $217,000 less than expected and also impacted the revenue recovered from related activity. The regulation team spent more time than anticipated responding to non-recoverable activity such as the pollution hotline.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Consents & Compliance

How we did

Consents Activity

Level of Service Statement	Level of Service Measures	Performance Target (previous year's AR result)	Performance Results
HBRC will process resource consent applications in a timely manner.	Percentage of resource consents processed within statutory timeframe in Resource Management Act.	100% (100% in 2017-18)	Achieved **100%** 455 resource consents were processed to completion within the statutory timeframe.

Compliance and Pollution Response Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will monitor consent holders to ensure compliance with the resource consent conditions imposed to protect the environment and human health.	Percentage of programmed inspections/reports completed each year as per the adopted risk-based Compliance Monitoring Strategy.	100% (94% in 2017-18)	Not Achieved Percentage Monitored: **90.9%** Consents to be monitored 3,519 Consents Monitored 3,198 The percentage of resource consents monitored is down on the previous year (2017-18: 94%) due to compliance staff taken away from their key function to assist with the setting up and implementation of the IRIS data base and the implementation of the NES Plantation Forestry. Two new full time equivalent staff (FTEs) will be employed in 2018-19 to improve capability and capacity in this area.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Consents & Compliance

	Percentage of monitored consents which receive an overall grade of full compliance.	95% (93.5% in 2017-18)	Not Achieved Full Compliance **92.17%** Low Risk Noncompliance 1.79% Moderate Noncompliance 3.11% Significant Noncompliance 2.83% Incomplete (work in process) 0.11% This compares to 93.5% in the previous year (2017-18) and is likely to reflect the introduction of a new grade classified as "low risk non-compliance" within our new reporting system called IRIS rather than any notable worsening of performance. Council escalates its regulatory response on a case-by-case basis according to the risk to the environment and human health, the seriousness of the non-compliance, the apparent attitude to compliance, and the compliance history and frequency of issues arising.
HBRC will provide a pollution response service for public complaints, reports of environmental incidents and unauthorised activities.	Maintain a 24- hour/7 day a week duty management/pollution management response system.	Achieved (Achieved in 2017-18)	Achieved Appropriately qualified staff operate the 24/7 duty management and pollution response system. The number of calls continues to increase (2% on the previous year). See the highlights section for more information on the number and type of pollution calls and enforcement action taken.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Consents & Compliance

HBRC will investigate and manage contaminated sites to ensure public health and safety and environmental protection.	A Hazardous Activities & Industries List (HAIL) database of potentially and confirmed contaminated sites is maintained.	Achieved (Partially achieved in 2017-18)	**Achieved.** Work is continuing to make the HAIL list available by web link or similar to enable free access to those regularly requiring that information. Presently there is a charge for that service. There is ongoing work to verify all listed HAIL sites.
HBRC will respond to oil spills within the Hawke's Bay Coastal Marine boundary and maintain a Tier 2 Oil Spill Response Plan, which identifies priority areas in HB for protection in the event of a major spill.	An operative Tier 2 Oil Spill Plan and a trained and qualified oil spill response team is in place at all times.	Achieved (Achieved in 2017-18)	**Achieved** An operative and approved T2 oil spill plan is in place. All oil spill training is up-to-date with the next exercise scheduled for September 2019.

Maritime Safety Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Results
HBRC will provide local navigation safety control of shipping and small craft movements and provide navigation aids to ensure the region's navigable waters are safe for people to use.	Maintain a Maritime New Zealand accredited ***Hazard Identification/Risk Assessment*** and Safety Management System for the Napier Pilotage Area.	Achieved	**Achieved** Undertaken as part of the Port and Harbour Marine Safety Code (PHMSC) self-audit in June 2019
	Number of maritime incidents occurring per year reported to Maritime New Zealand in accordance with regulations.	Decreasing trend Baseline: 3-year rolling average to June 2018 = 43	**Not Achieved** **73** (3-year rolling average) There were 105 incidents reported compared to 82 in 2017-18 and 33 in 2016-17. Approximately half of this year's notified events were regarding log handling at the port or pilot ladder standards on foreign vessels. The new Wharf 6 due to be constructed at Napier Port will reduce congestion and contribute to addressing the increasing number of reported incidents. More focus on reporting incidents is also driving the increase.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Emergency Management

What we do

There are two activities within the Emergency Management Group of Activities:

- Hawke's Bay Civil Defence Emergency Management (HBCDEM)Group
- HBRC Emergency Management

Why we do it

This Group of Activities contributes to the following community outcomes:

The Emergency Management activities aim to enhance community resilience and reduce the impact of emergency events on people, property, businesses and the economy. The activities aim to identify potential hazards to the community and the means of reducing their impact; prepare the community for potential civil defence emergencies; and assist with the response to and recovery from any emergencies that occur.

The Hawke's Bay Civil Defence Emergency Management Group (the CDEM group or the group) is responsible for the implementation of the Hawke's Bay Civil Defence Emergency Management Group Plan. The group operates as a shared service across councils with all civil defence staff working in the same organisation, improving the capability in our region to respond to and bounce back from a disaster.

The Hawke's Bay Regional Council administers this group and also maintains an emergency response capability to support the group. It does this by ensuring that staff are trained to help coordinate a response, including management of HBRC assets and ensuring essential business continues despite any disaster.

The relevant legislation for this function of Regional Council is the Civil Defence Emergency Management Act 2002 and the Resource Management Act 1991.

What we did

Highlights in 2018-19 for the Emergency Management group included:

- A single regional rate for civil defence was introduced, which completed the consolidation of the CDEM group as a shared service across all councils within the Hawke's Bay region. Previously the councils (Wairoa, Napier, Hastings and Central Hawke's Bay) rated their residents and were invoiced by the Regional Council for their share of civil defence work. With savings from the shared service consolidation, the focus is on strengthening civil defence capability with more emphasis on public education before and public information during an event. As part of this a Public Information Manager (PIM) was appointed in November, 2018.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Emergency Management

- In July 2018, the Hikurangi Response Plan project commenced with a busy first year. The purpose of the three-year project is to develop an inter-agency initial response plan for a credible and realistic Hikurangi subduction zone earthquake and tsunami scenario. The Hikurangi subduction zone is where the Pacific and Australian tectonic plates collide. It is New Zealand's largest fault running from off the Kaikoura coast and right past Hawke's Bay to off East Cape. The Hikurangi Response Plan is a collaborative East Coast LAB (Life at the Boundary) project between five lower-North Island CDEM groups with the HBCDEM group leading the initiative. It is funded by the Ministry of Civil Defence & Emergency Management Resilience Fund.
- In December 2018, a duty on-call emergency advisor system was established to ensure someone is always available to support the group and initial response activities when national watches and warnings are issued. The on-call role has already proven a valuable addition to the group's regional warning system by providing timely communication and advice to key response staff. The group issued 109 watches and warnings to regional response agencies over the year.
- An independent Capability Assessment Report was undertaken to find out how the new centralised model is tracking. The HBCDEM group scored 72.2% (an increase of more than 20% since 2009-10). The assessment, usually undertaken every five years, highlighted the overall confidence in the new group structure and the work already carried out under these changes. The assessment identified some standout areas and areas for improvement which the group will work towards.
- During 2018-19, a focus for the HBCDEM group was stronger engagement with communities. This included the completion of its community resilience programme 2019 – 2026. The Canterbury earthquakes showed the pivotal role communities play in emergency management and the group have identified the need to move from an organisational response-centric planning model to building resilience across our communities. In the past year the group worked with several rural coastal communities to develop resilience plans: Porangahau, Ocean Beach, Iwitea, Whakakī, Nuhaka and greater Mahia. Clive and Cape Coast community resilience plans are well underway and staff are looking to review existing plans to ensure they are up to date and relevant.
- An extensive exercise and training programme was carried out across the group to ensure there is enough people trained and capable of responding to an emergency event. Altogether 540 people received training and 148 took part in exercises.
- The HBCDEM Group Welfare Plan was adopted. This plan outlines how the group will organise a coordinated welfare response and what is required in readiness for us to be effective. This plan differs from previous plans as it takes a more holistic look at welfare in an emergency, helps us to better understand the social environment we operate in and takes an empathetic view to the experience of our effected community, their journey through to recovery and the outcomes they are seeking.
- During 2018-19, the redevelopment of HBCDEM's building in Lyndon St, Hastings was undertaken, due to be completed in August, 2019. The new office will provide an alternative district operations centre for the New Zealand Police in the case of an emergency and will be the group coordination centre for the Hawke's Bay Region.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Emergency Management

What we spent

Emergency Management	Activity (#)	Actual 18/19 ($'000)	Budget 18/19 ($'000)	Actual 17/18 ($'000)
EXPENDITURE				
Operating Expenditure				
HB Civil Defence Emergency Management Group	1	1,826	2,240	1676
HBRC Emergency Management	2	88	132	99
Depreciation/Amortisation Expense		1	17	1
Total Operating Expenditure		1,915	2,389	1,777
TOTAL EXPENDITURE		1,915	2,389	1,777
REVENUE				
Activity Revenue				
Direct Charges		23	119	179
Total Activity Revenue		23	119	179
Other Revenue				
Targeted Rates (Uniform Annual Charge)		2,130	2,130	1,072
Interest		3	(1)	(2)
Grants		0	-	683
Total Other Revenue		2,133	2,129	1,753
TOTAL REVENUE		2,156	2,248	1,932
TOTAL FUNDING REQUIREMENT		**241**	**(141)**	**155**
Special Reserve Funding				
Specific Scheme Reserves		(330)	(8)	(80)
Total Special Reserve Funding		(330)	(8)	(80)
NET GENERAL FUNDING REQUIREMENT		**(89)**	**(149)**	**75**
MET BY				
General Funding Rates		144	149	-
Investment Income		53	(25)	56
Operating Reserves		(108)	25	19
		89	**149**	**75**

Note: The comparative information has been restated to reflect changes in the activity grouping reported. Refer to page 23 for more detail.

Financial Variances Explained

The CDEM team carried personnel vacancies through the first half of the year which resulted in $400,000 less than budgeted expenditure for this function.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Emergency Management

How we did

Hawke's Bay CDEM Group Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
The HBCDEM Group will educate people about hazards, increase natural hazards knowledge through research and provide this information for risk reduction measures including land use planning, asset management, and infrastructure.	A 5-yearly Hazard Research Plan is approved by and reported on annually to the CDEM Group Coordinating Executives Group.	Achieved (New measure)	**Achieved** Ongoing research was commissioned in accordance with the Plan and has been reported to the Coordinating Executive Group (CEG). The last report was in August 2018 on the Hikurangi Response Plan project.
	Percentage of surveyed residents that identify earthquake, flooding, and tsunami as major hazards in Hawke's Bay (source: 2-yearly SIL perception survey).	Same or better result than last survey. (Last survey was in 2017: 86% of residents identified earthquakes, 58% of residents identified flooding/heavy rain, 45% of residents identified tsunami)	**Not Achieved** **Earthquake (74.9%); Flooding (47.3%); Tsunami (43.3%)** Risk awareness for the top 3 risks was worse than the previous survey undertaken in 2017. A dedicated Public Information Manager was appointed in November 2018 to improve both awareness and preparedness. Public education campaigns and place-based community engagement are a priority for the CDEM group in 2019-20. Note: The SIL perception survey was undertaken between May – June 2019 so has been reported in this financial year, not 2019-20 as scheduled in the 2018 -2028 Long Term Plan.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Emergency Management

The HBCDEM Group will increase readiness, and ensure a coordinated and appropriate response and recovery from a civil defence emergency to reduce the impact on people and property.	An operative Group Plan under the CDEM Act 2002 is in place, reported on annually and reviewed within statutory timeframes by the Joint Committee.	Achieved (New measure)	**Achieved** A review has commenced with the Joint Committee. Monitoring and evaluation process completed and report finalised for next Joint Committee meeting.
	A Group Work Programme implementing the Group Plan objectives is approved and reviewed 6 monthly by the Coordinating Executives Group.	Achieved (New measure)	**Achieved** Group work programme developed and approved for Coordinating Executives Group. Performance reporting completed and reported at 24 June meeting.
	Overall percentage score from the Ministry of CDEM assessment of the Hawke's Bay CDEM Group's capability (source: 5-yearly assessment).	80% (New measure)	**Not Achieved** **72%** The 5-yearly independent Capability Assessment was undertaken in May 2019 (a year earlier than planned). Despite not achieving the target of 80%, this is a significant improvement on previous results (2014/15: 60.8% and 2009-10: 51.4%). It shows a general improvement from developing to advancing and maturing capability.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Emergency Management

	Percentage of surveyed residents prepared to cope for at least three days or more on their own (source: 2-yearly perception survey).	Increasing trend Last survey was in 2017: 90% of residents have enough food for three days and some way of cooking 75% have enough water stored.	**Not Achieved** 84% of residents have enough food for three days; 62% enough water; and 82% some way of cooking without electricity. This result is worse across all 3 measures of preparedness when compared to the previous survey undertaken in 2017. A dedicated Public Information Manager was appointed in November 2018, to improve both awareness and preparedness. Public education campaigns and community engagement are a priority for the CDEM Group in 2019-20. Note: The SIL perception survey was undertaken between May – June 2019 so has been reported in this financial year, not 2019-20 as scheduled in the 2018 -2028 Long Term Plan.

HBRC Emergency Management

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
As the HBCDEM Group's Administering Authority, HBRC will provide an agreed budget and support to enable the Group to achieve the CDEM outcomes agreed to in the Group Plan.	HBRC provides support to the HBCDEM Group in accordance with a service level agreement.	Achieved (New measure)	**Achieved** Relationships continue to be constructive between group member councils in this area as referenced in Capability Assessment Report 2019.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Emergency Management

HBRC will ensure it has capability and capacity to respond and manage its assets during a civil defence emergency.	Maintain established team, training, procedures including Emergency Operations Centre Manual and Business Continuance Plan (BCP).	Achieved (Partially achieved in 2017-18)	**Achieved** The Emergency Standard Operating Procedures (SOPs) and team structures have been maintained, including inductions and training for new staff, and team refreshers, the BCP was reviewed in September 2016. A consultant reviewed the BCP and the Executive commenced work on implementing recommended improvements, which is 50% complete.
	24-hour duty management system in place.	Achieved (Achieved in 2017-18)	**Achieved** An effective 24-hour duty management system, supported by Palmerston North City Council afterhours, has been operated with 348 calls managed and logged by the duty managers for the year. 79 warnings or watches or severe weather, tsunami, or other events have been effectively managed.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Transport

What we do

There are three activities within the Transport Group of Activities:

- Transport Planning and Road Safety
- Passenger Transport
- Regional Cycling

Why we do it

This Group of Activities contributes to the following community outcomes:

The Hawke's Bay Regional Council is responsible for regional transport planning, provision of passenger transport services and co-ordination of road safety education across Hawke's Bay. The driving force is the Regional Land Transport Plan and the Regional Public Transport Plan which must be prepared by the Regional Transport Committee and the Regional Council.

A major part of the Council's transport role is to contract bus and Total Mobility taxi services that provide the community with access to work, education, social and recreational activities.

The Regional Council also has an important role in the coordination of cycling activities through the Regional Cycling Governance Group and the Regional Cycling Plan 2015, which is currently being reviewed. The Plan aims to maximise the financial and social returns from cycling for health, tourism and liveability.

What we did

Highlights in 2018-19 for the Transport group included:

- In December 2018, the new website (www.goBay.co.nz) went live. Feedback has been very positive.
- In early 2019, terms of reference were prepared for a joint transport study to evaluate traffic patterns in Hawke's Bay, predict future demand and programme any necessary improvements to the transport network and services. The study will be overseen by the Regional Transport Committee with technical support from the Transport Technical Advisory Group.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Transport

- In April 2019, it was announced that the Hawke's Bay Trails network would receive $1.3 million from the government's New Zealand Cycle Trail Enhancement and Extension Fund. Hawke's Bay Trails is one of the Great Rides of Ngā Haerenga - the New Zealand Cycle Trail. The funding will be used on three projects costing an estimated $3.6 million and creating an extra 34.5 kilometres of trails around Napier and Hastings. The costs will be split between the Ministry of Business, Innovation and Employment (MBIE) and local councils, up to 2022, with close collaboration with New Zealand Transport Agency and the local community.
- In June 2019, the Napier-Wairoa rail line was officially reopened. This follows years of discussions and advocacy led by the Regional Council. As Chair of the Regional Transport Committee, Councillor Alan Dick was instrumental in getting the rail line reinstated. Discussions began with KiwiRail over a decade ago around the future of the rail line and continued after it was closed in 2012 due to a washout.
- In June 2019, the Regional Public Transport Plan 2019 – 2029 was adopted following public consultation. The plan was prepared by the HBRC and is reviewed every three years. The plan sets out how the Regional Council manages the goBay bus and Total Mobility services. Priority actions from the plan include improving bus service reliability between Napier and Hastings, and investigating transport needs in Central Hawke's Bay and Wairoa.
- In June 2019, work commenced on future public transport initiatives to contribute to the Regional Council's strategic goal of a carbon neutral Hawke's Bay by 2040.
- A number of major roadworks on key routes around Hawke's Bay were under construction, including the completion of Te Ara Kahikatea (the new link from Whakatu), the Pakowhai Links Roundabout, the Watchman Road Roundabout and the new entrance to the Hawke's Bay Airport. These works are a result of the strategic plan developed by the Regional Transport Committee to improve safety and efficiency across the region's strategic routes.
- The project to implement a new bus ticketing and smartcard system for nine regional councils progressed. Initial testing was carried out but the project has been delayed due to further development and testing requirements. The new system will provide faster boarding, online smartcard top-ups and other benefits for passengers.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Transport

What we spent

Transport	Activity (#)	Actual 18/19 ($'000)	Budget 18/19 ($'000)	Actual 17/18 ($'000)
EXPENDITURE				
Operating Expenditure				
Transport Planning and Road Safety	1	571	782	624
Passenger Transport	2	4,208	3,914	3,713
Regional Cycling	3	261	143	66
Depreciation/Amortisation Expense		18	25	14
Total Operating Expenditure		5,058	4,864	4,417
TOTAL EXPENDITURE		5,058	4,864	4,417
REVENUE				
Activity Revenue				
Direct Charges		8	153	14
Total Activity Revenue		8	153	14
Other Revenue				
Targeted Rates		1,620	1,620	1,613
Interest		(1)	(2)	(0)
Grants		3,056	2,929	2,810
Total Other Revenue		4,676	4,547	4,422
TOTAL REVENUE		4,684	4,700	4,436
TOTAL FUNDING SURPLUS / (REQUIREMENT)		**(374)**	**(164)**	**19**
Special Reserve Funding				
Specific Scheme Reserves		172	(9)	(104)
Total Special Reserve Funding		172	(9)	(104)
NET GENERAL FUNDING SURPLUS / (REQUIREMENT)		**(202)**	**(173)**	**(85)**
MET BY				
General Funding Rates		144	173	-
Investment Income		121	(34)	62
Operating Reserves		(63)	34	23
		202	**173**	**85**

Note: The comparative information has been restated to reflect changes in the activity grouping reported. Refer to page 23 for more detail.

Financial Variances Explained

Road and Safety and Passenger Transport expenditure was higher than budget overall. This is a result of lower patronage and the resulting reduction in fares received.

Regional Cycling expenses also exceeded budget due to internal time allocations being greater than planned.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Transport

How we did

Transport Planning and Road Safety Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will develop and implement the region's transport planning documents to promote improved integration of all transport modes, land use and efficient movement of freight.	Adopted Regional Land Transport Plan (RLTP), Regional Public Transport Plan (RPTP) and Regional Cycling Plan in place.	Achieved (RLTP and Regional Cycling Plan Achieved; RPTP Partially Achieved in 2017-18)	Achieved The Regional Land Transport Plan was adopted in June 2018 in accordance with statutory timeframes. The Regional Public Transport Plan 2015 was reviewed during the 2018-19 year and was adopted by Council in June 2019. The Regional Cycle Plan 2015 is in place but under review during 2019.
HBRC will coordinate and implement sustainable regional road safety initiatives so that Hawke's Bay roads and pathways are safe and accessible, and the emotional and financial costs of road traffic crashes are reduced.	Incidence of fatal and injury crashes in our region (5-year rolling average).	Decreasing trend 2016: 335 (5-year rolling average for the region) (In the 2018-28 LTP, this measure was changed from reporting fatal and serious injury crashes to fatal and injury crashes and the previous year's result has been restated using the new methodology)	Partially Achieved 2017: 344 (5-year rolling average of fatal and injury crashes for the Hawke's Bay region). As there was a decreasing trend in Central Hawke's Bay and Napier and an increasing trend in Wairoa and Hastings districts this measure is recorded as Partially Achieved. Note: 2018 results published by the Ministry of Transport were not available at the time this report was produced.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Transport

Passenger Transport Activity

Level of Service Statement	Level of Service Measure	Performance Target (previous year's AR result)	Performance Result
HBRC will provide an accessible, integrated bus service and work with the relevant territorial authority to ensure appropriate service infrastructure within and between the Napier, Hastings and Havelock North urban areas to meet the transport needs of the people of Hawke's Bay.	Annual patronage on Hawke's Bay bus services.	Maintain or increasing trend (5-year rolling average to Jun 2017: 737,794)	**Not Achieved** 2018-19: 645,297 trips taken. 5-year rolling average to Jun 2019: 687,831. Patronage has decreased by 3% this year, while the 5-year average has decreased by 4%. The longer services (between Napier and Hastings) have maintained or increased patronage, but many of the suburban services are showing significant declines. In response to the continued drop in patronage and in light of the Council's recent climate change declaration, the Regional Transport Committee tasked staff with recommending innovative new ways to mitigate climate change through public transport. The first report is scheduled to be tabled at the Regional Transport Committee in September 2019.
	Annual passenger kilometres travelled on the Hawke's Bay bus services.	Maintain or increasing trend (5-year rolling average to June 2017: 7,561,510)	**Not Achieved** 2018-19: 6,949,061 passenger kilometres travelled. 5-year rolling average to June 2019: 7,218,669 km. As patronage is less than last year, the 5-year rolling average for passenger kilometres is also down, although not by the same percentage. This is because the decline in patronage is less apparent on our longer routes than on the shorter suburban routes.

Part 2 - Groups of Activities | Ngā Whakarōpūtanga Kaupapa

Transport

	Proportion of total service costs that is covered by fares.	Maintain or increasing trend (5-year rolling average to June 2017: 37.5%)	Not Achieved 2018-19: 34.6% 5-year rolling average to June 2019: 37.3% The annual and rolling average fare recovery rate has worsened due to higher costs and lower revenues as a result of declining patronage.
	Percentage of residences and businesses within 500m (under normal conditions) and 600m (in low density/outer areas) walking distance of a bus stop within existing bus routes.	90% Hastings 75% Napier (Not achieved in 2017-18)	Achieved 90% Hastings 90% Napier A re-calculation exercise conducted using Napier and Hastings district plan maps has shown that 90% of residential and commercial business are now within 500m of a bus stop. Low density/outer urban areas were not able to be calculated using this method.

Note: Trends are based on a 5-yearly rolling average to smooth out anomalies and/or fluctuations to get a long term picture of performance. To do this we take the last five year's data, average it then the next year we drop the earliest year off and add the latest one and average again.

Part 3:
Financials | Pūrongo Pūtea

Part 3- Financials | Pūrongo Pūtea

Financial Overview

Year one of the 2018-28 Long Term Plan signalled a step change in activity - particularly in the areas of land and water. The Financial Strategy in the 2018-28 Long Term Plan began implementation in the 2018-19 year. This effectively means we have accelerated and scaled up our activities to influence land and water use practices and to achieve a greater impact sooner.

As a result, operating expenditure in 2018-19 was $53 million, an increase of $5.1 million or 10% compared to the previous year. External operating expenditure increased by $3.2 million and personnel costs increased by $2.8 million or 16%. This demonstrates the significant increase in capacity and capability which has been required to carry out an ambitious, up-scaled programme of work.

Total capital expenditure was budgeted at $15.4 million for the year. However, $3.2 million of this has been carried forward to 2019-20. Despite an increase in staffing numbers and cost, many vacancies were difficult to fill and were vacant for part or all of the year, particularly Asset Management where a lack of resource and capability meant an underspend in Infrastructure Asset Construction of $2.2 million.

Another $1 million of capital carried forward relates to Information Technology (IT) projects or spend. Following a full review of the approach to IT transformation, greater priority has now been given to ensure the organisation is appropriately set up to benefit from system implementation before work begins.

The set-up and implementation of some new initiatives took longer than anticipated, such as the Integrated Catchment Management team's Erosion Control Scheme where $600,000 has been carried forward. Approximately $1 million of budgeted operating expenditure has been carried forward to the 2019-20 year for various work streams, due to resourcing challenges, difficulty gaining access to land, reliance on partnership or external funding or where reserve balances are being carried over.

Overall, operating expenditure exceeds budget due to the reallocation or prioritisation of internal work streams over debt fund capital projects which have been delayed or deferred to the new financial year.

The increased level of activity in 2018-19 was funded through:

- **Rates** – rates revenue makes up 50% or less of annual revenue. An average 19% increase in rates (including 5.3% related to the regional collection of Civil Defence Emergency Management). Rates revenue for the year was $23.2 million, an increase of $3.7million from 2017-18.
- **Recovery of user charges via fees and charges** – fees and charges provide around 20% of the Regional Council's annual funding requirements. A greater 'user pays' approach. Consents and Compliance were 80% chargeable to consent holders (up from 60% and 70% respectively in previous years). $1.9 million total revenue collected from direct charges – an increase of $520,000 from 2017-18,

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however $600,000 less than budget due to more time than anticipated spent responding to important but non-recoverable activities, such as the Pollution Hotline.

- **Investment income** – total Investment income including $10 million in dividends was $13.7 million.
  Included leasehold income of $1.8 million, forestry income of $23,000, returns from managed funds and cash on term deposit of $1.8 million.

Our investment strategy aims to maintain and grow investments to generate income, which allows general rates to continue being subsidised by investment income. In 2018-19, The Regional Council received $10 million in dividends from the 100% ownership of Napier Port via Hawke's Bay Regional Investment Company Ltd (HBRIC Ltd). Following the balance date of this Annual Report, the ownership in this asset has been diluted to 55% via an Initial Public Offering. Full details are outlined in the full Annual Report at hbrc.govt.nz. search: #AnnualReports. This post balance date event has already had a significant impact on the valuation of the asset. The Regional Council's valuation of assets has increased by over $64 million in the 2018-19 year including a revaluation of HBRIC Ltd.

Overall investment income was $3.2 million less than budget due to returns from managed funds being un-realised (they are balance sheet gains) and a delay in expected Forestry income, to be recognised when the forests are harvested. During the course of the 2018-19 year, $40 million of funds were placed into diversified investment portfolios managed by two separate fund managers. Appointment of the fund managers and subsequent establishment of the funds took longer administratively than anticipated which has an impact on the timing of the placement of funds (planned July 18, allocated in November 2018), however, the $40 million placed achieved overall gains of $1.88 million or 4.7% including adjustment for inflation. Forecast returns were 4.5% net of inflation which has resulted in a shortfall of investment income for 2019-20. Gain on invested funds is recognised in the financial statements as an un-realised gain as the returns were not divested in the year, due to favourable cash flow position.

Debt – The 2018-28 Long Term Plan outlines a preference for funding intergenerational projects through debt. In 2018-19 the Regional Council borrowed $2.5 million to fund regional infrastructure projects, work on regional parks and open spaces, and research and development projects.

External grant funding – 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 of the Environment for Iwi initiatives, and the Ministry of Primary Industries for afforestation, environmental and water initiative projects.

The closing financial position for the year is an operating surplus of $2.6 million compared to a planned surplus of $5.8 million. The total comprehensive revenue and expense position is $68.6 million which exceeds the planned $8.2 million surplus. This significant increase is due to unrealised revaluation gains across all asset classes most specifically a $58 million increase in the valuation of HBRIC (reflecting the value of ownership of Napier Port).

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Financial Reporting Benchmarks

The statement set out below discloses the Council's financial performance in relation to various benchmarks to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

These new reporting measures are set out in the Local Government (Financial Reporting and Prudence) Regulations 2014. This legislation is prescriptive as to the format and content of the benchmarks to be reported on.

1. Rates Affordability Benchmark

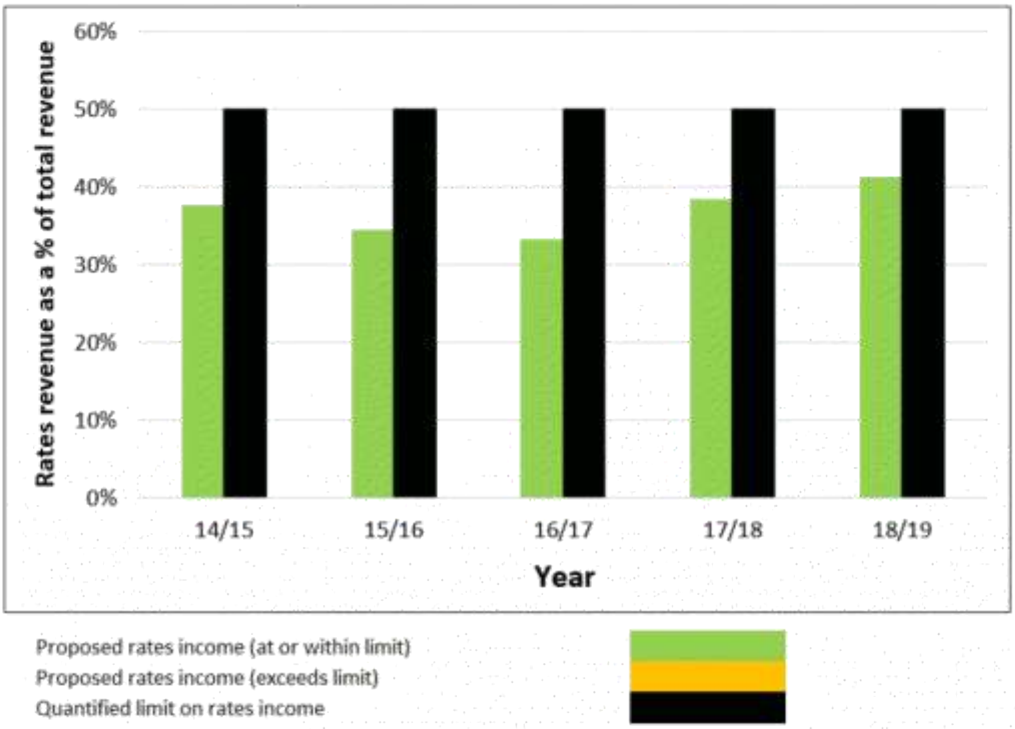
"The Council meets the rates affordability benchmark if:

- *its actual rates revenue equals or is less than each quantified limit on rates; and*
- *its actual rates increases equal or are less than each quantified limit on rates increases."*

A) Rates Income Affordability Benchmark

The following graph compares the Council's actual rates revenue with a quantified limit on rates contained in the financial strategy as included in the Council's 2018-28 Long Term Plan. The quantified limit used in the graph below is that total rates revenue will not exceed 50% of Council's annual revenue requirements. The graph uses percentage as a unit of measurement.

The graph below establishes that each of the five years presented are within the 50% benchmark.



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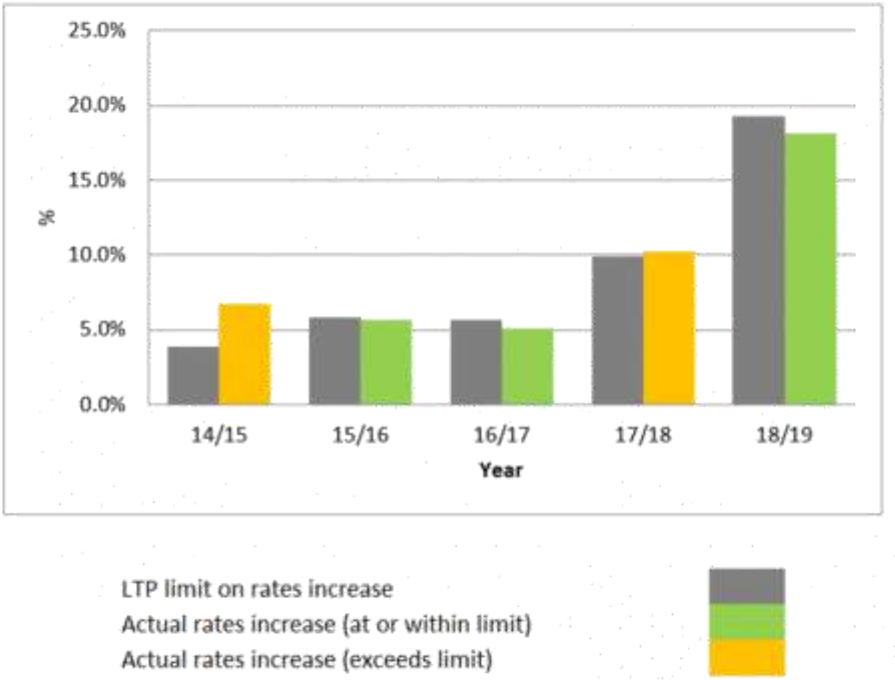
(B) Rates Increases Affordability Benchmark

The following graph compares the Council's actual rate increase with the quantified limit on rate increases included in the financial strategies in the Council's long term plans. The quantified limit used in the graph below is the budgeted percentage increase as per the LTP and uses percentage increase as a unit of measurement from the previous financial year.

The explanations for explaining the variances for each of the years when comparing the budgeted percentage increase in rates as compared to the actual increase in rates are consistent with the explanations as provided in the preceding graphs on Rates Revenue Affordability.



2. Debt Affordability Benchmark

"The Council meets the debt affordability benchmark if its actual borrowing is within each quantified limit on borrowing."

The financial strategy included in the Council's Long Term Plan set out two quantified limits on borrowing, being:

a) Net external debt as a percentage of total revenue must be less than 150%.
b) Net interest on external debt as a percentage of annual rates income must be less than 20%.

Graphs are provided below for each of these borrowing limits.

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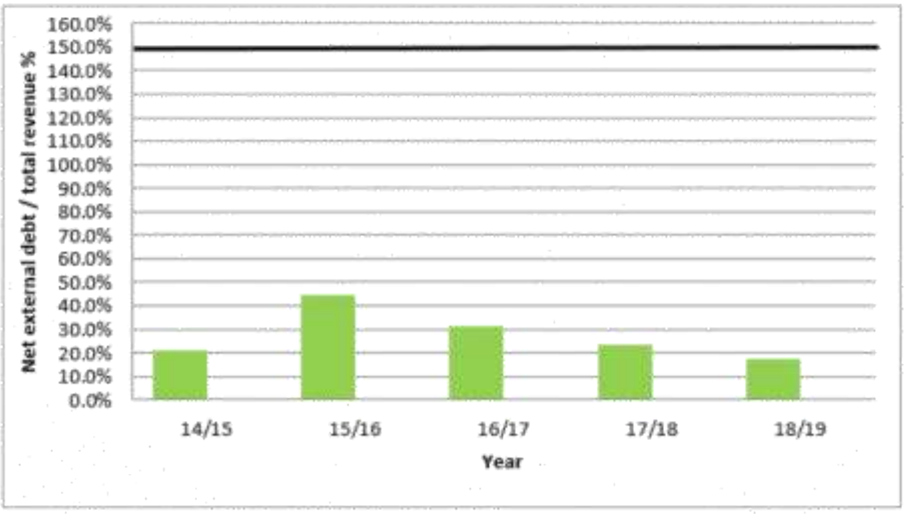
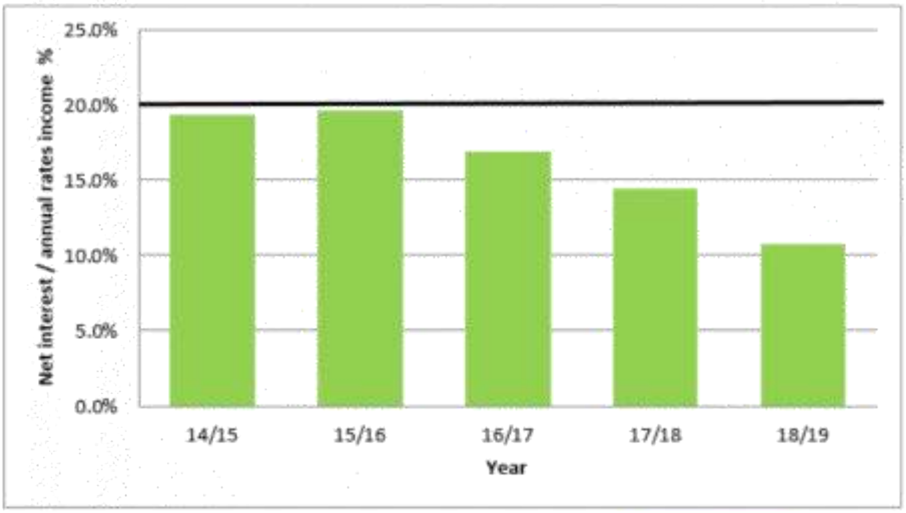
Borrowing limit debt to total revenue ratio



Benchmark met

Benchmark not met

Borrowing limit interest expense to annual rates income



Benchmark met

Benchmark not met

The graphs above establish that each of the five years presented are within the borrowing limits.

Part 3- Financials | Pūrongo Pūtea

3. Balanced Budget Benchmark

"The Council meets this benchmark if its revenue equals or is greater than its operating expenses."

The following graph displays the Council's revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant and equipment) as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of strategic assets, property, plant and equipment).

Benchmark met

Benchmark not met

The Council has met this benchmark for all years except 2016-17 due to the impairment of the advances made to HBRIC Ltd for the RWSS and the impairment of the RWSS evaluation costs.

4. Essential Services Benchmark

"The Council meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on network services."

The following graph displays the Council's capital expenditure on network services as a proportion of depreciation on network services – *(NB: Council has only one network service and that covers the flood and drainage schemes).*

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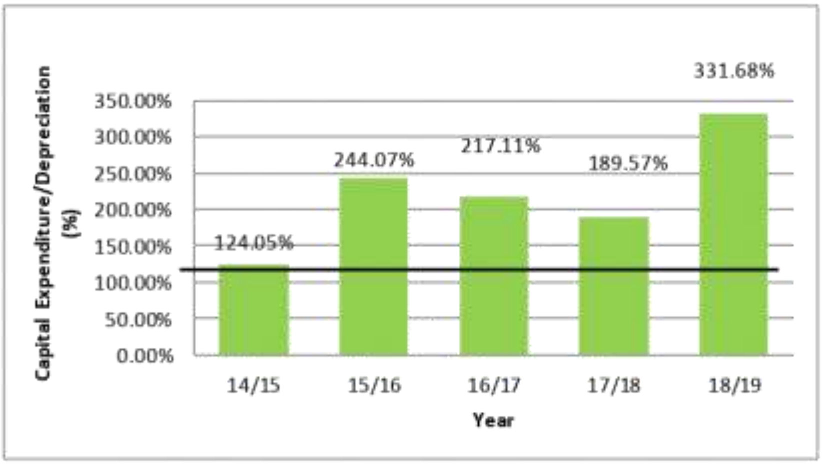


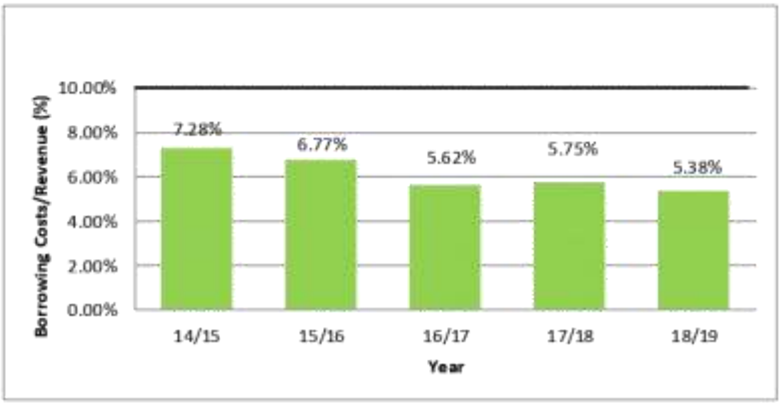
Benchmark met
Benchmark not met

The Council has met this benchmark for the last five financial years.

5. Debt Servicing Benchmark

"The Council meets the debt servicing benchmark if its borrowing costs are equal or less than 10% of its revenue."

The following graph displays the Council's borrowing costs as a proportion of revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations on property, plant and equipment).



Benchmark met
Benchmark not met

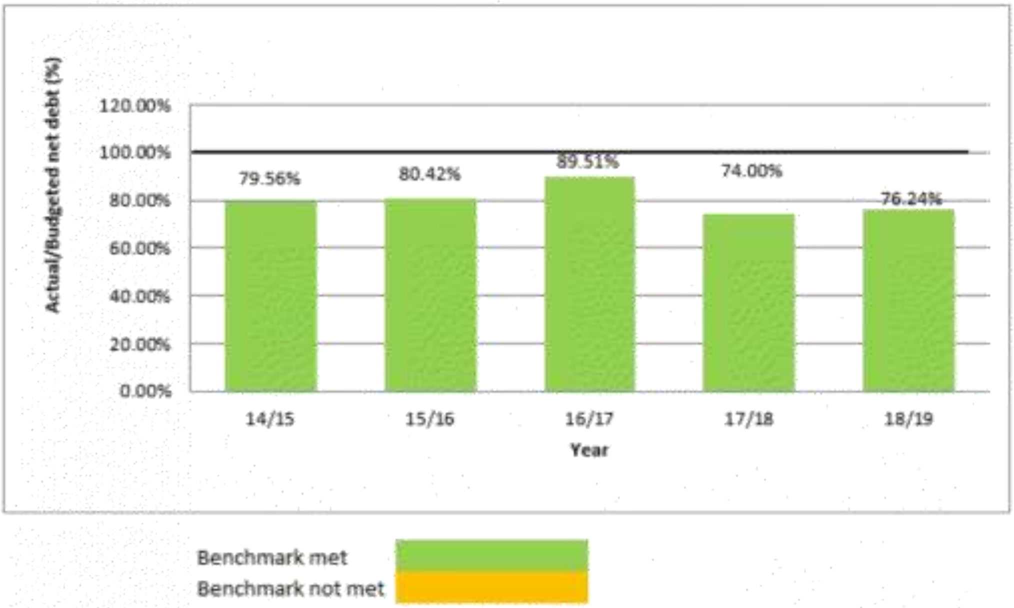
The Council has met the benchmark for all years included in the above graph. Fees paid to ACC for the capitalisation of Napier leasehold property cashflows for a 50 year period are included.

Part 3- Financials | Pūrongo Pūtea

6. Debt Control Benchmark

"The Council meets the debt control benchmark if its actual net debt equals or is less than its planned net debt."

The following graph displays the Council's actual net debt as a proportion of planned net debt. In this statement, **net** debt means financial liabilities less financial assets (excluding trade and other receivables).

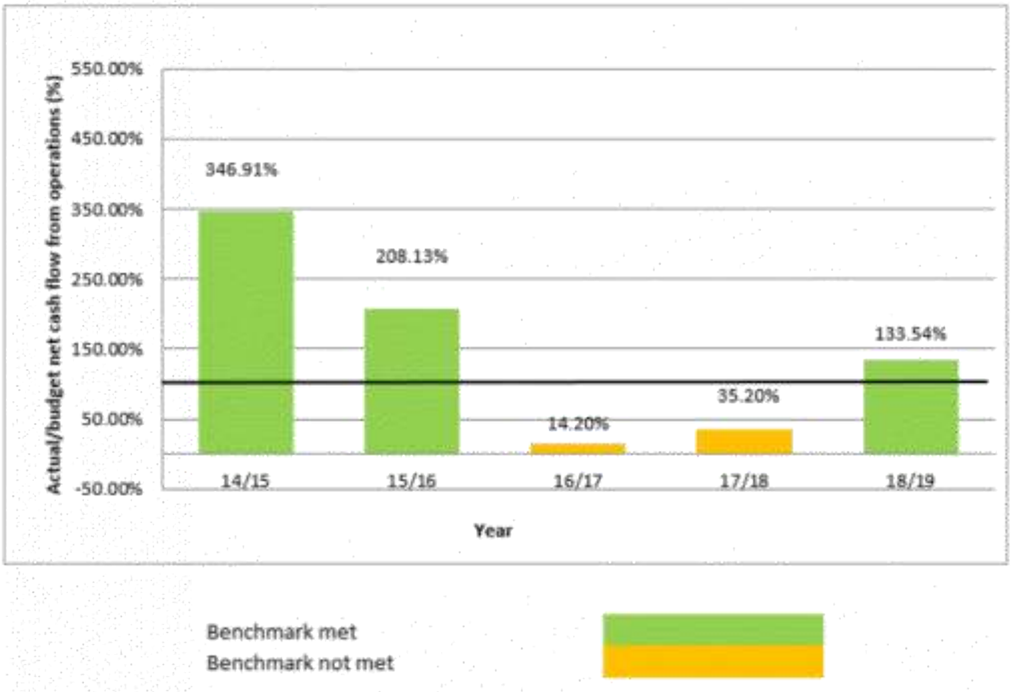


The Council has met the benchmark in all of the years.

Part 3- Financials | Pūrongo Pūtea

7. Operations Control Benchmark

"The Council meets the operations control benchmark if its actual net cashflow from operations equals or is greater than its planned net cashflow from operations."



The Council has met this benchmark (i.e. actual net cashflow from operations has exceeded planned levels) for all the years except 2016-17 and 2017-18 where the operating net cashflows were under budget but still positive.

Part 3- Financials | Pūrongo Pūtea

Notes to the Financials

Note 1: Statement of Accounting Policies

1.1 Reporting Entity

The Hawke's Bay Regional Council (Council) is a regional local authority governed by the Local Government Act 2002 (LGA) and is domiciled and operates in New Zealand. The relevant legislation governing the Council's operations includes the LGA and the Local Government (Rating) Act 2002.

The Hawke's Bay Regional Council group (group) consists of the ultimate parent, the Council, and its subsidiaries. These subsidiaries are 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 and social benefits for the community rather than make a financial return. The Council has designated itself and the group as public benefit entities (PBEs) for financial reporting purposes.

The financial statements are of the Council and group are for the year ended 30 June 2019 and were authorised for issue by Council on 16 October 2019.

1.2 Basis of Preparation

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

(1.2.1) Statement of compliance

The financial statements of the Council and group have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP), and the Local Government (Financial Reporting and Prudence) Regulations 2014 (LG(FRP)R).

The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

These financial statements comply with PBE 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 certain financial instruments measured at fair value.

(1.2.2) Presentation and Currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000).

(1.2.3) New Standards and Amendments issued and not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current year end's reporting periods and have not been early adopted by the Council. The Council and Group's assessment of the impact of these new standards and interpretations is set out below.

Impairment of revalued assets (amendments to PBE IPSAS 21 and 26)

The amendments bring revalued property, plant and equipment and intangible assets within the scope of PBE IPSAS 21 and PBE IPSAS 26. The amendments clarify that an impairment of an individual asset outside of the revaluation cycle will not necessitate the revaluation of the entire class of assets to which the impaired asset belongs. Effective for periods beginning 1 January 2019. This amendment is not expected to have a material impact on the Council.

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Introduces a new definition of control requiring both power and exposure to variable benefits and includes more guidance on assessing control (including additional guidance on substantive and protective rights). Exceptions from consolidation are provided for investment entities and a parent of an investment entity. The standard also Includes guidance on principal/agent relationships, network and partner agreements and on the application of consistent accounting policies when consolidating for-profit entities into a PBE group. Effective for periods beginning 1 January 2019. This amendment is not expected to have a material impact on the Council.

PBE IPSAS 38 Disclosure of interests in other entities

Requires the disclosure of information that enables users of financial statements to evaluate: 1) the nature of, and risks associated with, interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and 2) the effects of those interests on the financial position, financial performance and cash flows. Effective for periods beginning 1 January 2019. This amendment is not expected to have a material impact on the Council.

Amendments to PBE IPSAS 2 Statement of Cash Flows

Requires entities to provide additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Effective for periods beginning 1 January 2021. This amendment will result in additional disclosure required and will not have any additional impact on the amounts disclosed.

The Council has not early adopted any of these standards. There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Note 2: Summary of Significant Accounting Policies

2.1 Basis of Consolidation

The consolidated financial statements are prepared by adding together like items of assets, liabilities, equity, revenue, and expenses of entities in the group on a line-by-line basis. All intragroup balances, transactions, revenues, and expenses are eliminated on consolidation.

(2.1.1) Subsidiaries

The Council consolidates in the group financial statements all entities where the Council has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the subsidiary. This power exists where the Council controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by the Council or where the determination of such policies is unable to materially affect the level of potential ownership benefits that arise from the activities of the subsidiary.

The Council will recognise goodwill where there is an excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. This difference reflects the goodwill to be recognised by the Council. If the consideration transferred is lower than the net fair value of the Council's interest in the identifiable assets acquired and liabilities assumed, the difference will be recognised immediately in the surplus or deficit.

In the parent entity's separate financial statements, the Council has elected to account for its investments in subsidiaries as financial instruments in accordance with PBE IPSAS 29 and, therefore, carries these at fair value.

2.2 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.

(2.2.1) Rates Revenue

The following policies for rates have been applied:

- General rates, targeted rates and uniform annual general charges are recognised at the start of the financial year to which the rates resolution relates.

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- Rates arising from late payment penalties are recognised as revenue when rates become overdue.
- Rate remissions are recognised as a reduction of rates revenue when the Council has received an application that satisfies its rates remission policy.

(2.2.2) Sales of Goods and Services

- Revenue from the sale of goods is recognised when a product is sold to the customer.
- 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.

(2.2.3) Interest and Dividends

- Interest revenue is recognised using the effective interest method. Interest revenue on an impaired financial asset is recognised using the original effective interest rate.
- Dividends are recognised when the right to receive payment has been established. When dividends are declared from pre-acquisition surpluses, the dividend is deducted from the cost of the investment.

(2.2.4) Grants

Grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

2.3 Expenditure Recognition

(2.3.1) Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

(2.3.2) Grant Expenditure

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where the Council has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the Council and the approval has been communicated to the applicant. The Council's grants awarded have no substantive conditions attached.

(2.3.3) Foreign Currency Transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZ$ (the functional currency) using the spot exchange rate at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

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2.4 Income Tax

Income tax expense includes components relating to both current tax and deferred tax.

- Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.
- Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit.
- Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.
- Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.
- Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.
- Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive revenue and expense or directly in equity.

2.5 Leases

(2.5.1) Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the Council will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

(2.5.2) Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

2.6 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 statement of financial position.

2.7 Receivables

Receivables are recorded at their face value, less any provision for impairment.

2.8 Derivative Financial Instruments and Hedging Accounting

Derivative financial instruments are used to manage exposure to foreign exchange arising from the Council's operational activities and interest rate risks arising from the Council's financing activities. In accordance with its treasury policy, the Council does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged.

The associated gains or losses on derivatives that are not hedge accounted are recognised in the surplus or deficit.

The Council and group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of highly probable forecast transactions (cash flow hedge).

The Council and group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Council and group also documents its assessment, both at hedge 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 or cash flows of hedged items.

The full fair value of a hedge accounted derivative is classified as non-current if the remaining maturity of the hedged item is more than 12 months, and as current if the remaining maturity of the hedged item is less than 12 months.

The full fair value of a non-hedge accounted foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date; otherwise, foreign exchange derivatives are classified as non-current. The portion of the fair value of a non-hedge accounted interest rate derivative that is expected to be realised within 12 months of the balance date is classified as current, with the remaining portion of the derivative classified as non-current.

(2.8.1) Fair value hedge

The gain or loss from remeasuring the hedging instrument at fair value, along with the changes in the fair value on the hedged item attributable to the hedged risk, is recognised in the surplus or deficit. Fair value hedge accounting is applied only for hedging fixed interest risk on borrowings.

If the hedge relationship no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the surplus or deficit over the period to maturity.

(2.8.2) Cash flow hedge

The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised in other comprehensive revenue and expense, and the ineffective portion of the gain or loss on the hedging instrument is recognised in the surplus or deficit as part of "finance costs".

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive revenue and expense are

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reclassified into the surplus or deficit in the same period or periods during which the asset acquired or liability assumed affects the surplus or deficit. However, if it is expected that all or a portion of a loss recognised in other comprehensive revenue and expense will not be recovered in one or more future periods, the amount that is not expected to be recovered is reclassified to the surplus or deficit.

When a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated gains and losses that were recognised in other comprehensive revenue and expense will be included in the initial cost or carrying amount of the asset or liability.

If a hedging instrument expires or is sold, terminated, exercised, or revoked, or it no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive revenue and expense from the period when the hedge was effective will remain separately recognised in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive revenue and expense from the period when the hedge was effective is reclassified from equity to the surplus or deficit.

2.9 Financial Assets

Financial assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

Purchases and sales of financial assets are recognised on trade-date, the date on which the Council and group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Council and group has transferred substantially all the risks and rewards of ownership.

Financial assets are classified into the following categories for the purpose of measurement:

- fair value through surplus or deficit
- loans and receivables
- held-to-maturity investments, and
- fair value through other comprehensive revenue and expense.

The classification of a financial asset depends on the purpose for which the instrument was acquired.

(2.9.1) Financial Assets at Fair Value through Surplus or Deficit

Financial assets at fair value through surplus or deficit include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated into a hedge accounting relationship for which hedge accounting is applied.

Financial assets acquired principally for the purpose of selling in the short-term or part of a portfolio classified as held for trading are classified as a current asset. The current/non-current classification of derivatives is explained in the derivatives accounting policy above.

After initial recognition, financial assets in this category are measured at their fair values with gains or losses on re-measurement recognised in the surplus or deficit.

(2.9.2) 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 current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

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After initial recognition, they are measured at amortised cost, using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

Loans to community organisations made at nil or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar financial instrument. The loans are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of the expected future cash flows of the loan is recognised in the surplus or deficit as a grant.

(2.9.3) Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and there is the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost, using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

(2.9.4) Financial Assets at Fair Value through other Comprehensive Revenue and Expense

Financial assets at fair value through other comprehensive revenue and expense are those that are designated into the category at initial recognition or are not classified in any of the other categories above. They are included in non-current assets unless management intends to dispose of, or realise, the investment within 12 months of balance date. The Council and group includes in this category:

- investments that it intends to hold long-term but which may be realised before maturity; and
- shareholdings that it holds for strategic purposes.

These investments are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense, except for impairment losses, which are recognised in the surplus or deficit.

On derecognition, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

2.10 Impairment of Financial Assets

Financial assets are assessed for evidence of impairment at each balance date. Impairment losses are recognised in the surplus or deficit.

(2.10.1) Loans and receivables, and held-to-maturity investments

Impairment is established when there is evidence that the Council and group will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation and default in payments are considered indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written-off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits, local authority stock, government bonds, and community loans, are recognised directly against the instrument's carrying amount.

(2.10.2) Financial assets at fair value through other comprehensive revenue and expense

For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered objective indicators that the asset is impaired. If impairment

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evidence exists for investments at fair value through other comprehensive revenue and expense, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

Equity instrument impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

If in a subsequent period the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed in the surplus or deficit.

2.11 Inventory

Inventory held by the Council is for own use only and is stated at the lower of cost (using the weighted average cost method) and net realisable value.

2.12 Non-Current Assets Held for Sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

2.13 Property, Plant and Equipment

(2.13.1) 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 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 assets constructed by Council 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.

(2.13.2) 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.

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- 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.

(2.13.3) Additions

The cost of an item of property, plant, and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Council and group and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

(2.13.4) Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

(2.13.5) 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 surplus or deficit during the financial period in which they are incurred.

(2.13.6) 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 statement of comprehensive revenue and expense.

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.

2.14 Intangible Assets

(2.14.1) Software Acquisition and Development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Staff training costs are recognised in the surplus or deficit when incurred. Costs associated with maintaining computer software are recognised as an expense when incurred. Costs associated with development and maintenance of the Council's website are recognised as an expense when incurred.

(2.14.2) Carbon Credits

Purchased carbon credits are recognised at cost on acquisition.

Free carbon units received from the Crown are recognised at fair value on receipt. They are not amortised, but are instead tested for impairment annually. They are derecognised when they are used to satisfy carbon emission obligations.

(2.14.3) Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

2.15 Depreciation and Amortisation Periods

Land 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 date. Major depreciation and amortisation periods are:

Major Depreciation and Amortisation Periods	
Asset Category	**Years**
Buildings and Site Improvements	3 - 41
Vehicles	3 - 20
Plant & Equipment	1 - 31
Computer Equipment	3 - 20
Computer Software & Licences	3 - 50
Infrastructure Assets	5 - 100

No depreciation is provided for stop banks, berm edge protection, sea or river groynes, drainage works 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.

2.16 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 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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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An impairment is recognised 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 revalued assets, an impairment loss is recognised in the statement of comprehensive revenue and expense against the revaluation reserve. Any impairment in excess of the reserve is recognised in surplus or deficit. Subsequent reversals of impairment are recognised in surplus or deficit to the extent initially recognised in surplus or deficit with any further reversals recognised in the statement of comprehensive revenue and expense.

For assets carried at cost, impairment and any reversals are recognised in surplus or deficit.

2.17 Investment Property

Investment property is leasehold land in Napier and Wellington held to earn rental revenue and for capital appreciation. Such property is initially recognised at cost. At each balance 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 surplus or deficit for the period in which it arises.

2.18 Forestry Crops

Forestry crops are measured at their fair value less estimated point-of-sale costs each balance 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 surplus or deficit for the period in which it arises.

2.19 Payables

Short-term creditors and other payables are recorded at their face value.

2.20 Borrowings

Borrowings are recognised initially at fair value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost 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 date.

2.21 Employee Entitlements

(2.21.1) Short-term Employee Entitlements

Employee benefits expected to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent it will be used by staff to cover those future absences.

(2.21.2) Long-term Employee Entitlements

Employee benefits that are due to be settled beyond 12 months after the end of the period in which the employee renders the related service, such as long service leave and retirement gratuities, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information; and

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- the present value of the estimated future cash flows

2.22 Provisions

Provisions are recognised when:

- Council 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 the passage of time is recognised as interest expense and is included in "Finance costs".

Provisions are not recognised for future operating losses.

2.23 Equity

Equity is the community's interest in the Council and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components.

- accumulated funds;
- fair value reserves;
- cash flow hedge reserves; and
- other reserves;

(2.23.1) Fair Value Reserves

This reserve relates to the revaluation of land, buildings, hydrological assets, infrastructure assets and available-for-sale financial assets.

The available-for-sale assets are comprised of investments in both equity and debt instruments. They are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

(2.23.2) Cash Flow Hedge Reserves

This reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedge instruments, related to hedged transactions that have not yet occurred.

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(2.23.3) Other Reserves

Other reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Some of these other reserves are restricted by Council decision. Transfers to and from these reserves are at the discretion of the Council.

2.24 Goods and Services Tax

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

2.25 Budget Figures

The budget figures are those approved by the Council in its 2017-18 Annual Plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

2.26 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.

2.27 Critical Accounting Estimates and Assumptions

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair Value of Assets

Various assumptions have been made in determining fair value of assets. These assumptions are set out under the individual assets notes.

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Useful Life of Assets

The useful life of assets that are depreciated or amortised as based on best estimates and prior knowledge but may not reflect the actual true useful life of individual assets.

2.28 Critical Judgments in Applying Accounting Policies

Management has exercised judgements in applying accounting policies for the year ended 30 June 2019 these are in accordance with the accounting standards and best practice.

2.29 Changes in Accounting Policies

There have been no changes to accounting policies.

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Financial Statements -

Statement of Comprehensive Revenue and Expense

For the Year Ended 30 June 2019

		Regional Council			Group	
	Note	Actual 18/19 $000	Budget 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Revenue						
Revenue from activities	3	8,416	9,198	6,548	103,204	96,307
Rates revenue	4	23,186	22,829	19,475	23,186	19,475
Subsidies and grants	5	3,989	3,368	5,383	3,989	5,383
Other revenue	5	14,469	16,029	15,479	5,923	5,400
Fair value gains on investments	6	5,802	3,195	3,697	5,802	4,171
Reduction in ACC Leasehold Liability			917			
Total Operating Revenue		**55,863**	**55,536**	**50,582**	**142,105**	**130,736**
Expenditure						
Expenditure on activities	3	(26,856)	(24,593)	(23,818)	(57,750)	(49,792)
Personnel costs	7(a)	(20,394)	(19,738)	(17,499)	(47,759)	(43,436)
Finance costs	3	(2,489)	(2,447)	(2,803)	(6,928)	(7,384)
Depreciation & amortisation expense	3	(3,081)	(2,925)	(2,905)	(14,330)	(14,836)
Fair value losses	6	-	-	-	-	-
Other expenditure	7(c)	(475)		(965)	(1,359)	(1,206)
Total Operating Expenditure		**(53,295)**	**(49,704)**	**(47,990)**	**(128,126)**	**(116,654)**
Advance written off by HBRC					-	-
Impairment of RWSS intangible asset		-	-	-	-	-
Impairment of HBRIC RWSS advances		-	-	-	-	-
Impairment of HBRC RWSS evaluation costs		-	-	-	-	-
Loss on sale of intangible asset		-	-	-	-	(7,755)
Total Impairment and Loss on Sale Expenditure		**-**	**-**	**-**	**-**	**(7,755)**
Total Expenditure		**(53,295)**	**(49,704)**	**(47,990)**	**(128,126)**	**(124,409)**
Operating Surplus / (Deficit) before Income Tax		**2,568**	**5,832**	**2,593**	**13,979**	**6,328**
Income tax expense	8	-	-	-	(2,034)	(5,402)
Operating Surplus / (Deficit) after Income Tax		**2,568**	**5,832**	**2,593**	**11,945**	**926**
Other Comprehensive Revenue and Expense						
Gain/(loss) in other financial assets	19	58,879	1,000	48,394	2,227	(394)
Gain/(loss) on revalued intangible asset	19	1,290	-	283	1,290	9,778
Gain/(loss) on revalued property, plant and equipment assets	19	6,357	1,436	-	9,860	-
Effect on Consolidation						-
Total Other Comprehensive Revenue and Expense		**66,526**	**2,436**	**48,677**	**13,377**	**9,384**
Total Comprehensive Revenue and Expense		**69,094**	**8,268**	**51,270**	**25,321**	**10,310**

The accompanying notes form part of these financial statements.

Part 3- Financials | Pūrongo Pūtea

Statement of Financial Position

	Note	Regional Council Actual 18/19 $000	Regional Council Budget 18/19 $000	Regional Council Actual 17/18 $000	Group Actual 18/19 $000	Group Actual 17/18 $000
ASSETS						
Non-Current Assets						
Property, plant & equipment	9	27,629	24,120	21,453	339,095	326,853
Infrastructure assets	10	174,709	176,268	173,004	174,709	173,004
Investment property	11	48,393	54,520	47,102	56,363	54,387
Intangible assets	12	7,347	6,895	5,273	8,545	6,834
Forestry assets	15	11,482	10,589	10,698	11,482	10,698
Investment in joint venture	14	-	-	-	-	823
Advances to Council-controlled organisations	16		-	-	-	-
Trade & other receivables	16	-	-	-	-	-
Derivative financial instruments	17	-	-	-	-	-
Deferred tax assets	22	-	-	-	-	-
Total non-current assets before other financial assets		269,561	272,392	257,530	590,195	572,599
Other financial assets	13	51,590	71,331	9,313	51,590	9,313
Investment in Council-controlled organisations	13	340,396	246,985	283,500	-	-
Advances to Napier / Gisborne Rail	13	236	1,701	218	236	218
Total other financial assets	13	392,222	320,017	293,031	51,826	9,531
Total Non-Current Assets		661,783	592,409	550,561	642,021	582,130
Current Assets						
Inventories		113	35	122	113	122
Trade & other receivables	16	10,038	8,989	9,969	27,326	23,561
Advances to Council-controlled organisations	16	6,500	-	-	-	-
Derivative financial instruments	17	-	-	-	-	-
Other financial assets	13	4,110	20,732	57,216	4,110	57,216
Cash and cash equivalents	18	28,436	3,900	27,309	32,227	27,574
Current tax asset		-	-	-	389	288
Non-current assets held for sale		-	-	-	-	-
Total Current Assets		49,196	33,656	94,616	64,164	108,761
TOTAL ASSETS		**710,979**	**626,065**	**645,177**	**706,185**	**690,891**
NET ASSETS / EQUITY						
Accumulated funds	20	357,496	325,116	305,237	329,136	260,219
Fair value reserves	19	275,969	174,963	209,443	182,175	171,201
Other reserves	20	31,375	71,098	81,066	31,375	81,066
Total Net Assets / Equity		**664,840**	**571,177**	**595,746**	**542,685**	**512,486**
LIABILITIES						
Non-Current Liabilities						
Derivative financial instruments	17	-	-	13	4,312	3,718
Borrowings	21	17,685	20,753	19,125	98,385	105,725
Provisions for other liabilities & charges	25	11,768	16,967	14,115	11,768	14,115
Deferred tax liabilities	22	-	-	-	17,063	21,028
Employee benefit liabilities	23	1,429	657	543	1,903	964
Total Non-Current Liabilities		30,882	38,377	33,796	133,431	145,549
Current Liabilities						
Bank overdraft	21	-	-	-	129	-
Derivative financial instruments	17	-	-	-	1,708	1,494
Borrowings	21	3,900	5,165	3,900	3,900	9,586
Provisions for other liabilities & charges	25	668	977	745	668	745
Current tax payable		-	-	-	2,001	1,396
Employee benefit liabilities	23	1,209	-	1,916	4,061	4,601
Trade & other payables	24	9,480	10,369	9,074	17,600	15,034
Total Current Liabilities		15,257	16,511	15,635	30,067	32,856
TOTAL LIABILITIES		**46,139**	**54,888**	**49,431**	**163,499**	**178,406**
TOTAL NET ASSETS / EQUITY & LIABILITIES		**710,979**	**626,065**	**645,177**	**706,185**	**690,891**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
For the Year Ended 30 June 2019

	Note	Regional Council			Group	
		Actual 18/19 $000	Budget 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Equity as at beginning of year		595,746	562,909	544,476	517,365	503,791
Total Comprehensive Revenue and Expense		69,094	8,268	51,270	25,320	10,310
Dividends received / (paid)		-	-	-	-	-
Share capital issued		-	-	-	-	-
Effect on consolidation		-	-	-	-	(1,615)
Equity as at end of year		**664,840**	**571,177**	**595,746**	**542,686**	**512,486**

The accompanying notes form part of these financial statements.

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Statement of Cash Flows

	Note	Regional Council			Group	
		Actual 18/19 $000	Budget 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
CASH FLOW FROM OPERATING ACTIVITIES						
Cash was provided from:						
Receipts from customers		8,746	11,376	6,770	101,491	96,119
Rates		23,186	22,829	19,475	23,186	19,475
Dividends received		10,000	10,000	10,000	-	-
Interest received		1,797	3,297	2,549	1,800	2,549
Grants		3,989	3,368	5,720	3,989	5,720
Other Revenue		41	554	174	9	32
GST		-	-	-	278	(176)
		47,760	51,424	44,688	130,754	123,719
Cash was applied to:						
Payments to suppliers		23,077	23,530	23,272	51,539	49,925
Payments to and behalf of employees		20,394	19,683	17,408	47,759	43,345
Interest expense		2,489	2,447	2,803	6,749	7,614
Income tax expense		-	-	-	1,860	6,321
		45,960	45,660	43,483	107,907	107,205
Net Cash Flows from Operating Activities	18	**1,800**	**5,764**	**1,205**	**22,847**	**16,514**
CASH FLOWS FROM INVESTING ACTIVITIES						
Cash was provided from:						
Disposal of property, plant & equipment		146	946	215	874	602
Disposal of investment properties		3,714	-	5,739	3,714	5,739
Disposal of financial assets		53,815	8,294	76,516	53,815	76,516
Disposal of forestry assets		-	485	-	-	-
Third party contributions for purchase of intangibles		-	-	-	-	-
		57,675	9,725	82,470	58,403	82,857
Cash was applied to:						
Purchase of property, plant & equipment		2,451	3,539	2,198	13,679	23,572
Purchase of intangible assets		1,218	2,055	955	1,218	1,034
Construction of infrastructure assets		2,390	3,467	1,517	2,390	1,517
Community Lending		-	2,918	-	-	-
Purchase of financial assets		41,202	15,479	57,184	41,202	57,184
Purchase of Forestry assets		-	-	160	-	160
Purchase of intangibles on behalf of third parties		-	-	-	-	-
Investment in Joint Venture		-	-	-	50	60
Construction of infrastructure assets		-	425	-	-	-
Advances to Investment Company		6,500	-	(94)	6,500	(94)
Advances to Napier / Gisborne Rail		236	1,500	17	236	17
		53,997	29,383	61,937	65,275	83,450
Net Cash Flows from Investing Activities		**3,677**	**(19,658)**	**20,533**	**(6,873)**	**(593)**
CASH FLOWS FROM FINANCING ACTIVITIES						
Cash was provided from:						
Loans drawn		3,900	7,010	3,900	3,900	9,600
Leashold Annuity		475	-	-	475	-
		4,375	7,010	3,900	4,375	9,600
Cash was applied to:						
Loans repaid		5,340	4,252	3,740	12,440	3,740
Leasehold freeholding proceeds paid to ACC		3,385	1,119	4,850	3,385	4,850
Effect on consolidation		-	-	-	-	-
		8,725	5,371	8,590	15,825	8,590
Net Cash Flows from Financing Activities		**(4,350)**	**1,639**	**(4,690)**	**(11,450)**	**1,010**
Net Increase / (Decrease) in Cash & Cash Equivalents		**1,127**	**(12,255)**	**17,048**	4,524	16,932
Opening cash & cash equivalents		27,309	16,155	10,261	27,574	10,642
Closing Cash & Cash Equivalents	18	**28,436**	**3,900**	**27,309**	**32,098**	**27,574**

The accompanying notes form part of these financial statements.

Part 3- Financials | Pūrongo Pūtea

Note 1: Statement of Accounting Policies

1.1 Reporting Entity

The Hawke's Bay Regional Council (Council) is a regional local authority governed by the Local Government Act 2002 (LGA) and is domiciled and operates in New Zealand. The relevant legislation governing the Council's operations includes the LGA and the Local Government (Rating) Act 2002.

The Hawke's Bay Regional Council group (group) consists of the ultimate parent, the Council, and its subsidiaries. These subsidiaries are 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 and social benefits for the community rather than make a financial return. The Council has designated itself and the group as public benefit entities (PBEs) for financial reporting purposes.

The financial statements are of the Council and group are for the year ended 30 June 2019.

1.2 Basis of Preparation

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

(1.2.1) Statement of compliance

The financial statements of the Council and group have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP), and the Local Government (Financial Reporting and Prudence) Regulations 2014 (LG(FRP)R).

The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

These financial statements comply with PBE 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 certain financial instruments measured at fair value.

(1.2.2) Presentation and Currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000).

(1.2.3) New Standards and Amendments issued and not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current year end's reporting periods and have not been early adopted by the Council. The Council and Group's assessment of the impact of these new standards and interpretations is set out below.

Impairment of revalued assets (amendments to PBE IPSAS 21 and 26)

The amendments bring revalued property, plant and equipment and intangible assets within the scope of PBE IPSAS 21 and PBE IPSAS 26. The amendments clarify that an impairment of an individual asset outside of the revaluation cycle will not necessitate the revaluation of the entire class of assets to which the impaired asset belongs. Effective for periods beginning 1 January 2019. This amendment is not expected to have a material impact on the Council.

PBE IPSAS 35 Consolidated financial statements

Introduces a new definition of control requiring both power and exposure to variable benefits and includes more guidance on assessing control (including additional guidance on substantive and protective rights). Exceptions from consolidation are provided for investment entities and a parent of an investment entity. The standard also Includes guidance on principal/agent relationships, network and partner agreements and on the application of consistent accounting policies when consolidating for-profit entities into a PBE group. Effective for periods beginning 1 January 2019. This amendment is not expected to have a material impact on the Council.

PBE IPSAS 38 Disclosure of interests in other entities

Requires the disclosure of information that enables users of financial statements to evaluate: 1) the nature of, and risks associated with, interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and 2) the effects of those interests on the financial position, financial performance and cash flows. Effective for periods beginning 1 January 2019. This amendment is not expected to have a material impact on the Council.

Amendments to PBE IPSAS 2 Statement of Cash Flows

Requires entities to provide additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Effective for periods beginning 1 January 2021. This amendment will result in additional disclosure required and will not have any additional impact on the amounts disclosed.

The Council has not early adopted any of these standards. There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Note 2: Summary of Significant Accounting Policies

2.1 Basis of Consolidation

The consolidated financial statements are prepared by adding together like items of assets, liabilities, equity, revenue, and expenses of entities in the group on a line-by-line basis. All intragroup balances, transactions, revenues, and expenses are eliminated on consolidation.

(2.1.1) Subsidiaries

The Council consolidates in the group financial statements all entities where the Council has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the subsidiary. This power exists where the Council controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by the Council or where the determination of such policies is unable to materially affect the level of potential ownership benefits that arise from the activities of the subsidiary.

The Council will recognise goodwill where there is an excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. This difference reflects the goodwill to be recognised by the Council. If the consideration transferred is lower than the net fair value of the Council's interest in the identifiable assets acquired and liabilities assumed, the difference will be recognised immediately in the surplus or deficit.

In the parent entity's separate financial statements, the Council has elected to account for its investments in subsidiaries as financial instruments in accordance with PBE IPSAS 29 and, therefore, carries these at fair value.

2.2 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.

(2.2.1) Rates Revenue

The following policies for rates have been applied:

- General rates, targeted rates and uniform annual general charges are recognised at the start of the financial year to which the rates resolution relates.

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- Rates arising from late payment penalties are recognised as revenue when rates become overdue.
- Rate remissions are recognised as a reduction of rates revenue when the Council has received an application that satisfies its rates remission policy.

(2.2.2) Sales of Goods and Services

- Revenue from the sale of goods is recognised when a product is sold to the customer.
- 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.

(2.2.3) Interest and Dividends

- Interest revenue is recognised using the effective interest method. Interest revenue on an impaired financial asset is recognised using the original effective interest rate.
- Dividends are recognised when the right to receive payment has been established. When dividends are declared from pre-acquisition surpluses, the dividend is deducted from the cost of the investment.

(2.2.4) Grants

Grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

2.3 Expenditure Recognition

(2.3.1) Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

(2.3.2) Grant Expenditure

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where the Council has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the Council and the approval has been communicated to the applicant. The Council's grants awarded have no substantive conditions attached.

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(2.3.3) Foreign Currency Transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZ$ (the functional currency) using the spot exchange rate at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

2.4 Income Tax

Income tax expense includes components relating to both current tax and deferred tax.

- Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.
- Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit.
- Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.
- Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.
- Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.
- Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive revenue and expense or directly in equity.

2.5 Leases

(2.5.1) Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the Council will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

(2.5.2) Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

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Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

2.6 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 statement of financial position.

2.7 Receivables

Receivables are recorded at their face value, less any provision for impairment.

2.8 Derivative Financial Instruments and Hedging Accounting

Derivative financial instruments are used to manage exposure to foreign exchange arising from the Council's operational activities and interest rate risks arising from the Council's financing activities. In accordance with its treasury policy, the Council does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged.

The associated gains or losses on derivatives that are not hedge accounted are recognised in the surplus or deficit.

The Council and group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of highly probable forecast transactions (cash flow hedge).

The Council and group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Council and group also documents its assessment, both at hedge 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 or cash flows of hedged items.

The full fair value of a hedge accounted derivative is classified as non-current if the remaining maturity of the hedged item is more than 12 months, and as current if the remaining maturity of the hedged item is less than 12 months.

The full fair value of a non-hedge accounted foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date; otherwise, foreign exchange derivatives are classified as non-current. The portion of the fair value of a non-hedge accounted interest rate derivative that is expected to be realised within 12 months of the balance date is classified as current, with the remaining portion of the derivative classified as non-current.

(2.8.1) Fair value hedge

The gain or loss from remeasuring the hedging instrument at fair value, along with the changes in the fair value on the hedged item attributable to the hedged risk, is recognised in the surplus or deficit. Fair value hedge accounting is applied only for hedging fixed interest risk on borrowings.

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If the hedge relationship no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the surplus or deficit over the period to maturity.

(2.8.2) Cash flow hedge

The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised in other comprehensive revenue and expense, and the ineffective portion of the gain or loss on the hedging instrument is recognised in the surplus or deficit as part of "finance costs".

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive revenue and expense are reclassified into the surplus or deficit in the same period or periods during which the asset acquired or liability assumed affects the surplus or deficit. However, if it is expected that all or a portion of a loss recognised in other comprehensive revenue and expense will not be recovered in one or more future periods, the amount that is not expected to be recovered is reclassified to the surplus or deficit.

When a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated gains and losses that were recognised in other comprehensive revenue and expense will be included in the initial cost or carrying amount of the asset or liability.

If a hedging instrument expires or is sold, terminated, exercised, or revoked, or it no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive revenue and expense from the period when the hedge was effective will remain separately recognised in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive revenue and expense from the period when the hedge was effective is reclassified from equity to the surplus or deficit.

2.9 Financial Assets

Financial assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

Purchases and sales of financial assets are recognised on trade-date, the date on which the Council and group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Council and group has transferred substantially all the risks and rewards of ownership.

Financial assets are classified into the following categories for the purpose of measurement:

- fair value through surplus or deficit
- loans and receivables
- held-to-maturity investments, and
- fair value through other comprehensive revenue and expense.

The classification of a financial asset depends on the purpose for which the instrument was acquired.

(2.9.1) Financial Assets at Fair Value through Surplus or Deficit

Financial assets at fair value through surplus or deficit include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short-

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term profit-taking. Derivatives are also categorised as held for trading unless they are designated into a hedge accounting relationship for which hedge accounting is applied.

Financial assets acquired principally for the purpose of selling in the short-term or part of a portfolio classified as held for trading are classified as a current asset. The current/non-current classification of derivatives is explained in the derivatives accounting policy above.

After initial recognition, financial assets in this category are measured at their fair values with gains or losses on re-measurement recognised in the surplus or deficit.

(2.9.2) 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 current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition, they are measured at amortised cost, using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

Loans to community organisations made at nil or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar financial instrument. The loans are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of the expected future cash flows of the loan is recognised in the surplus or deficit as a grant.

(2.9.3) Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and there is the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost, using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

(2.9.4) Financial Assets at Fair Value through other Comprehensive Revenue and Expense

Financial assets at fair value through other comprehensive revenue and expense are those that are designated into the category at initial recognition or are not classified in any of the other categories above. They are included in non-current assets unless management intends to dispose of, or realise, the investment within 12 months of balance date. The Council and group includes in this category:

- investments that it intends to hold long-term but which may be realised before maturity; and
- shareholdings that it holds for strategic purposes.

These investments are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense, except for impairment losses, which are recognised in the surplus or deficit.

On derecognition, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

2.10 Impairment of Financial Assets

Financial assets are assessed for evidence of impairment at each balance date. Impairment losses are recognised in the surplus or deficit.

(2.10.1) Loans and receivables, and held-to-maturity investments

Impairment is established when there is evidence that the Council and group will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership, or liquidation and default in payments are considered indicators that the asset is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written-off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits, local authority stock, government bonds, and community loans, are recognised directly against the instrument's carrying amount.

(2.10.2) Financial assets at fair value through other comprehensive revenue and expense

For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered objective indicators that the asset is impaired.

If impairment evidence exists for investments at fair value through other comprehensive revenue and expense, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.
Equity instrument impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

If in a subsequent period the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed in the surplus or deficit.

2.11 Inventory

Inventory held by the Council is for own use only and is stated at the lower of cost (using the weighted average cost method) and net realisable value.

2.12 Non-Current Assets Held for Sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit.
Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

2.13 Property, Plant and Equipment

(2.13.1) 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 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 assets constructed by Council 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.

(2.13.2) 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.

(2.13.3) Additions

The cost of an item of property, plant, and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Council and group and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

(2.13.4) Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

(2.13.5) 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 surplus or deficit during the financial period in which they are incurred.

(2.13.6) Revaluation Adjustments

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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 statement of comprehensive revenue and expense.

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. 2.14 Intangible Assets

(2.14.1) Software Acquisition and Development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised in the surplus or deficit when incurred. Costs associated with maintaining computer software are recognised as an expense when incurred. Costs associated with development and maintenance of the Council's website are recognised as an expense when incurred.

(2.14.2) Carbon Credits

Purchased carbon credits are recognised at cost on acquisition.

Free carbon units received from the Crown are recognised at fair value on receipt. They are not amortised, but are instead tested for impairment annually. They are derecognised when they are used to satisfy carbon emission obligations.

(2.14.3) Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

2.15 Depreciation and Amortisation Periods

Land 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.

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Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. Major depreciation and amortisation periods are:

Major Depreciation and Amortisation Periods	
Asset Category	**Years**
Buildings and Site Improvements	3 - 41
Vehicles	3 - 20
Plant & Equipment	1 - 31
Computer Equipment	3 - 20
Computer Software & Licences	3 - 50
Infrastructure Assets	5 - 100

No depreciation is provided for stop banks, berm edge protection, sea or river groynes, drainage works 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.

2.16 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 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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment is recognised 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 revalued assets, an impairment loss is recognised in the statement of comprehensive revenue and expense against the revaluation reserve. Any impairment in excess of the reserve is recognised in surplus or deficit. Subsequent reversals of impairment are recognised in surplus or deficit to the extent initially recognised in surplus or deficit with any further reversals recognised in the statement of comprehensive revenue and expense.

For assets carried at cost, impairment and any reversals are recognised in surplus or deficit.

2.17 Investment Property

Investment property is leasehold land in Napier and Wellington held to earn rental revenue and for capital appreciation. Such property is initially recognised at cost. At each balance 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 surplus or deficit for the period in which it arises.

2.18 Forestry Crops

Forestry crops are measured at their fair value less estimated point-of-sale costs each balance 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 surplus or deficit for the period in which it arises.

2.19 Payables

Short-term creditors and other payables are recorded at their face value.

2.20 Borrowings

Borrowings are recognised initially at fair value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost 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 date.

2.21 Employee Entitlements

(2.21.1) Short-term Employee Entitlements

Employee benefits expected to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent it will be used by staff to cover those future absences.

(2.21.2) Long-term Employee Entitlements

Employee benefits that are due to be settled beyond 12 months after the end of the period in which the employee renders the related service, such as long service leave and retirement gratuities, have been calculated on an actuarial basis.

The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information; and
- the present value of the estimated future cash flows

2.22 Provisions

Provisions are recognised when:

- Council 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 the passage of time is recognised as interest expense and is included in "Finance costs".

Provisions are not recognised for future operating losses.

2.23 Equity

Equity is the community's interest in the Council and is measured as the difference between total assets and total liabilities.

Equity is disaggregated and classified into the following components:

- accumulated funds;
- fair value reserves;
- cash flow hedge reserves; and
- other reserves;

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(2.23.1) Fair Value Reserves

This reserve relates to the revaluation of land, buildings, hydrological assets, infrastructure assets and available-for-sale financial assets.

The available-for-sale assets are comprised of investments in both equity and debt instruments. They are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

(2.23.2) Cash Flow Hedge Reserves

This reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedge instruments, related to hedged transactions that have not yet occurred.

(2.23.3) Other Reserves

Other reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Some of these other reserves are restricted by Council decision. Transfers to and from these reserves are at the discretion of the Council.

2.24 Goods and Services Tax

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

2.25 Budget Figures

The budget figures are those approved by the Council in its 2018-28 Long Term Plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

2.26 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.

2.27 Critical Accounting Estimates and Assumptions

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair Value of Assets

Various assumptions have been made in determining fair value of assets. These assumptions are set out under the individual assets notes.

Useful Life of Assets

The useful life of assets that are depreciated or amortised as based on best estimates and prior knowledge but may not reflect the actual true useful life of individual assets.

2.28 Critical Judgments in Applying Accounting Policies

Management has exercised judgements in applying accounting policies for the year ended 30 June 2019 these are in accordance with the accounting standards and best practice.

2.29 Changes in Accounting Policies

There have been no changes to accounting policies.

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Note 3: Groups of Activities Revenue & Expenditure

	Note	Regional Council			Group	
		Actual 18/19 $000	Budget 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Revenue						
Groups of activity						
Strategic Planning		-	-		-	-
Asset Management		2,974	2,033	2,390	2,974	2,390
Integrated Catchment Management		3,446	4,181	2,568	3,446	2,568
Regulation		1,904	2,589	1,384	1,527	1,320
Emergency Management		23	119	179	23	179
Transport		8	153	14	8	14
Governance & Community Engagement		61	122	13	60	2
Total groups of activity revenue		**8,416**	**9,197**	**6,548**	**8,038**	**6,473**
Less internal revenue			-	-	-	-
Total groups of activity revenue		**8,416**	**9,197**	**6,548**	**8,038**	**6,473**
Other activity						
Subsidiary operations		-	-	-	95,166	89,834
Total activity revenue		**8,416**	**9,197**	**6,548**	**103,204**	**96,307**
Expenditure						
Groups of activity						
Strategic Planning		4,648	4,946	5,208	4,648	5,208
Asset Management		11,209	10,531	10,460	11,209	10,460
Integrated Catchment Management		20,422	17,780	16,966	20,422	16,966
Regulation		4,057	4,336	3,421	4,056	3,390
Emergency Management		1,915	2,389	1,777	1,915	1,777
Transport		5,058	4,864	4,417	5,058	4,417
Governance & Community Engagement		3,748	3,573	3,016	3,747	3,005
Total groups of activity expenditure		**51,058**	**48,419**	**45,264**	**51,056**	**45,222**
Less internal expenditure		(180)	(177)	(179)	(180)	(179)
Total groups of activity expenditure		**50,879**	**48,242**	**45,085**	**50,877**	**45,043**
Other activities						
Regional income collection		1,942	1,461	1,940	1,942	1,940
Interest Paid on Regional income loans		-	-	-	-	-
Subsidiary operations		-	-	-	73,948	68,465
Total other activities expenditure		**1,942**	**1,461**	**1,940**	**75,890**	**70,405**
Less personnel costs	7(a)	(20,394)	(19,738)	(17,499)	(47,759)	(43,436)
Less finance costs - interest on borrowings		(1,238)	(1,328)	(1,388)	(5,677)	(5,969)
Less finance costs - fees associated with the transfer of Napier 1		(1,251)	(1,119)	(1,415)	(1,251)	(1,415)
Less depreciation and amortisation expense		(3,081)	(2,925)	(2,905)	(14,330)	(14,836)
Total activity expenditure		**26,856**	**24,593**	**23,818**	**57,749**	**49,792**
Depreciation and amortisation by groups of activity						
Strategic Planning		-	-	-		
Asset Management		686	650	642		
Intregrated Catchment Management		471	476	415		
Regulation		4	1	3		
Emergency Management		1	34	16		
Transport		18	25	14		
Governance & Community Engagement		7	8	7		
Total directly attributable depreciation and amortisation						
Depreciation not directly related to groups of activity		1,895	1,731	1,808		
Total depreciation and amortisation expense		**3,081**	**2,925**	**2,905**		

Note: The comparative information has been restated to reflect changes in the activity grouping reported. Refer to page 23 for more detail.

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Note 4: Rates Revenue

	Note	Regional Council Actual 18/19 $000	Regional Council Budget 18/19 $000	Regional Council Actual 17/18 $000	Group Actual 18/19 $000	Group Actual 17/18 $000
General funding rates						
Uniform annual general charge		2,668	2,648	2,707	2,668	2,707
General rate on land value		4,470	4,304	1,821	4,470	1,821
Total general funding rates		**7,138**	**6,952**	**4,528**	**7,138**	**4,528**
Targeted rates		15,878	15,877	14,947	15,878	14,947
Rates Penalties		219			219	
Rates Remissions		(49)			(49)	
Total rates revenue	4(a)	**23,186**	**22,829**	**19,475**	**23,186**	**19,475**

Note 4(a)

Under Council's rates remission policy for multiple ownership land, 138 rates remissions were approved, totalling $49,739 (2017/18 - 127 remissions totalling $44,849)

Rating base information

The number of rating units within the region as at June 2019 are 70,719. (2018: 70,212)

The total capital value of rating units within the region as at 30 June 2019 is $38,807,752,750 (2018: $34,674,606,450)

The total land value of the rating units within the region as at 30 June 2019 is $19,557,552,200 (2018: $17,799,313,450)

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Note 5: Other Revenue

	Note	Regional Council Actual 18/19 $000	Regional Council Budget 18/19 $000	Regional Council Actual 17/18 $000	Group Actual 18/19 $000	Group Actual 17/18 $000
Subsidies and grants						
Grants	5(a)	3,989	3,368	5,383	3,989	5,383
Total subsidies and grants		**3,989**	**3,368**	**5,383**	**3,989**	**5,383**
Other revenue						
Dividend revenue		10,000	10,000	10,000	-	-
Leasehold rents	5(b)	2,576	2,178	2,593	4,062	2,658
Interest revenue		1,797	3,297	2,721	1,797	2,721
Gain / (Loss) on disposal of assets - net		41	-	(9)	41	(9)
Subvention payments		32	28	144	-	-
Foresty income	5(c)	23	526	30	23	30
Total other revenue		**14,469**	**16,029**	**15,479**	**5,923**	**5,400**

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 of 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.

Note 5(c)

Miscellaneous revenue includes forestry income and fines.

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Note 6: Fair Value Gains & Losses through the Statement of Comprehensive Revenue and Expenditure

	Note	Regional Council			Group	
		Actual 18/19 $000	Budget 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Fair value gains						
Investment property gains	11	5,005	2,596	2,911	5,005	3,385
Financial asset gains	13	-	-	-	-	-
Forestry asset gains	15	784	599	768	784	768
Derivative instrument gains	17	13	-	18	13	18
Infrastructure asset gains			-	-	-	-
Carbon credit gains				-	-	-
Foreign currency gains		-	-	-	-	-
Total fair value gains		**5,802**	**3,195**	**3,697**	**5,802**	**4,171**
Fair value losses						
Investment property losses	11	-	-	-	-	-
Financial asset losses	13	-	-	-	-	-
Forestry asset losses	15	-	-	-	-	-
Derivative instrument losses	17	-	-	-	-	-
Infrastructure asset losses	10	-	-	-	-	-
Carbon credit losses		-	-	-	-	-
Foreign currency losses		-	-	-	-	-
Asset impairment losses	9 &10	-	-	-	-	-
Total fair value losses		**-**	**-**	**-**	**-**	**-**

Note:

Fair value gains and losses on trading assets (listed above) are recorded in the Statement of Comprehensive Revenue and Expenditure. 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 Statement of Comprehensive Revenue and Expenditure as an asset impairment.

Note 7: Expense Disclosures

Regional Council			Group	
Actual	Budget	Actual	Actual	Actual

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	Note	18/19 $000	18/19 $000	17/18 $000	18/19 $000	17/18 $000
General disclosures						
Depreciation (refer to Notes 9 & 10)		2,647	2,432	2,470	10,342	16,027
Amortisation (refer to Note 12)		434	493	435	835	1,155
Personnel Costs	**7(a)**	20,305	19,738	17,499	47,670	43,436
Donations		20	20	10	20	10
Operating lease expense		163	168	102	364	248
Key management compensation					-	-
[a] short-term employee benefits		2,263	2,273	2,116	5,526	5,166
[b] post-employment benefits		-	-	-	-	-
[c] other long-term benefits		60	67	64	60	64
[d] termination benefits		-	-	-	130	278
[e] share-based payment		-	-	-	-	-
	7(b)	2,323	2,340	2,180	**5,716**	**5,508**
Fees paid to Council's auditors (Audit NZ)						
Financial statements audit fee		134	95	106	162	126
Long term plan audit fee		-	-	64	-	64
Assurance & related services fee (lease receivables agreement report)		9	-	9	9	9
Tax services fee		-	-	-	-	-
Other services fee		-	-	-	-	-
Fees paid to subsidiaries' auditors (EY)						
Financial statements audit fee		-	-	-	145	106
Non audit services (strategic risk consultancy)		-	-	-	-	-
Total fees paid to auditors		143	95	179	**316**	**305**

Note 7(a)

Personnel Costs

Salaries and wages	19,551	19,102	16,827	46,916	42,764
Defined contribution plan employer contributions	665	636	595	665	595
Increase/(decrease) in employee entitlements	90	-	77	90	77

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Total Personnel Costs	**20,305**	**19,738**	**17,499**	**47,670**	**43,436**

Employer contributions to defined contributions plans include KiwiSaver and other approved Superannuation schemes

Note 7(b)

Key Management Compensation

Councillors					
Remuneration	631	594	619	631	619
Full-time equivalent members	9	9	9	9	9
Executive Management Team, including the Chief Executive and Interim Chief Executives					
Remuneration	1,692	1,746	1,561	1,692	1,561
Termination benefits	-	-	-	-	-
Full-time equivalent members	9	9	8	9	8
Company Directors, Chief Executive and Senior Management					
Remuneration	-	-	-	3,263	3,050
Termination benefits				130	278
Full-time equivalent members	-	-	-	21	22
Total Key Management Compensation	**2,323**	**2,340**	**2,180**	**5,716**	**5,508**
Total full-time equivalent personnel	**18**	**18**	**17**	**39**	**39**

Due to the difficulty in determining the full-time equivalent for Councillors, the full-time equivalent figure is taken as the number of Councillors.
Key management for the Council comprises Councillors and the Executive Team for Council and Directors and Chief Executive for each subsidiary.

Note 7(c)

Other Expenditure

Leasehold Liability Movement (adjustment required to correctly state the liability to ACC)	475	-	863	475	863
Distributions out of reserves		-	102	-	102
Share of gain/(loss) from equity accounted investees		-		884	171

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Loss on sale of land				-	70
	475	-	965	**1,359**	**1,206**

Leasehold liability movements are an adjustment owed to ACC. Under the lease receivables purchase agreement this adjustment is required due to the effect on the net present value (NPV) model of the high number of freeholdings processed during the year. Payments to ACC for these freeholdings include the 1.5% pa valuation increase allowed in the model. Future HBRC liability to ACC needs to be adjusted to reflect these payments.

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Note 8: Income Tax Expense

	Note	Regional Council Actual 18/19 $000	Regional Council Actual 17/18 $000	Group Actual 18/19 $000	Group Actual 17/18 $000
Income tax expense					
Current tax		-	-	7,596	6,418
Deferred tax	22	-	-	(79)	(1,016)
Adjustments to current tax in prior periods				(5,483)	
Total income tax expense		-	-	**2,034**	**5,402**

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 18/19 $000	Regional Council Actual 17/18 $000	Group Actual 18/19 $000	Group Actual 17/18 $000
Surplus / (deficit) before tax	2,568	2,593	13,979	6,328
Tax at domestic rate of 28% (2018 28%)	719	726	5,011	1,772
Plus / (Less) tax effect of:			-	
Income not subject to tax	(11,788)	(10,306)	(11,886)	(10,306)
Expenses not deductible for tax purposes	14,923	13,437	14,054	14,054
Imputation credits	(3,889)	(3,889)	-	-
Tax effect of income not recognised for accounting	-	-	-	-
Utilisation of previously unrecognised tax losses	-	-	-	-
Group loss transfer	35	32	35	32
Prior period adjustment	-	-	(5,180)	(150)
Tax losses not recognised/Adjust tax rate changes	-	-	-	-
Tax on changes to building depreciation rates	-	-	-	-
Tax charge	-	-	**2,034**	**5,402**

The Council and Group have unrecognised income tax losses of $116,050 (2017/18 $116,050) with a tax effect of $35,322 (2017/18 $32,494) 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 2017											
Cost or valuation		6,754	8,070	2,290	3,634	4,124	929	2,473	837	-	29,111
Accumulated depreciation		-	(424)	(1,251)	(1,683)	(1,536)	(658)	(1,682)	(607)	-	(7,841)
Net book amount		6,754	7,646	1,039	1,951	2,588	271	791	230	-	**21,270**
Year ended 30 June 2018											
Opening net book amount		6,754	7,646	1,039	1,951	2,588	271	791	230	-	21,270
Revaluation surplus / (deficit)											
Transfers				251	(251)						-
Additions				460	557	672	103	218	121	67	2,198
Disposals				(64)	(122)	(11)					(197)
Depreciation charges			(449)	(232)	(404)	(371)	(46)	(262)	(54)		(1,818)
Asset impairment losses		-	-	-	-	-	-	-	-	-	-
		6,754	7,197	1,454	1,731	2,878	328	747	297	67	**21,453**
At 30 June 2018											
Cost or valuation		6,754	8,070	2,937	3,818	4,785	1,032	2,691	958	67	31,112
Accumulated depreciation		-	(873)	(1,483)	(2,087)	(1,907)	(704)	(1,944)	(661)	-	(9,659)
Net book amount		6,754	7,197	1,454	1,731	2,878	328	747	297	67	**21,453**

Part 3- Financials | Pūrongo Pūtea

Year ended 30 June 2019											
Opening net book amount		6,754	7,197	1,454	1,731	2,878	328	747	297	67	21,453
Revaluation surplus / (deficit)		3,158	1,843			833					5,834
Transfers / reclassification											-
Additions			224	234	708	544	95	278	267	101	2,451
Disposals					(146)	-					(146)
Depreciation charges			(450)	(278)	(368)	(427)	(64)	(308)	(68)		(1,963)
Asset impairment losses											-
		9,912	8,814	1,410	1,925	3,828	359	717	496	168	**27,629**
At 30 June 2019											
Cost or valuation	**9(a)**	9,912	10,137	3,171	4,380	6,162	1,127	2,969	1,225	168	39,251
Accumulated depreciation		-	(1,323)	(1,761)	(2,455)	(2,334)	(768)	(2,252)	(729)	-	(11,622)
Net book amount		9,912	8,814	1,410	1,925	3,828	359	717	496	168	**27,629**

Part 3- Financials | Pūrongo Pūtea

Note 9(a)

Council land and buildings were valued at 31 May 2019 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 $14,098,000.

Land used for forestry in the Lake Tūtira Country Park and Tangoio Soil Conservation Reserve was valued at 31 May 2019 by Morice Limited, independent valuers. The total fair value of this land was $1,818,000.

Land used for carbon sequestration and wastewater disposal was valued at 31 May 2019 by Morice Limited, independent valuers. The total fair value of this land was $2,564,000.

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 31 May 2019 on the basis of depreciated replacement value. This valuation was carried out by 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	25,704	26,871	
Pump stations	4,671	14,151	
Vehicles	1,925	1,925	
Timber Crops	11,482	10,369	(18/19 insurance will increase to cover the book value at 30/06/19)
	43,782	53,316	

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.

Infrastructure Insurance	Book Value $,000	Maximum Insured Amount $,000
Infrastructure Assets*	154,882	223,300

* Infrastructure Assets exclude land

HBRC insure infrastructure assets through AON New Zealand. A report prepared by consultant Tonkin & Taylor in conjunction with AON assessed HBRCs maximum probable loss in a 1:2000 earthquake event at $60m. HBRC holds insurance to cover 40% of this loss (with central government meeting the remaining 60%), for up to two events in any one year. The excess associated with this policy is $1,500,000. 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 2019 are:

Regional Disaster Damage Reserve (book value)	2,350,000
Scheme Disaster Damage Reserves	3,588,000
Total	5,938,000

Part 3- Financials | Pūrongo Pūtea

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	Capitalised Interest $000	Capital Work in Progress $000	Total $000
Subsidiaries													
At 1 July 2017													
Cost or valuation	34,809	58,891	24,115	3,664	24,100	14,891	45,042	46,376	34,775	76,711	(3,866)	6,839	366,347
Accumulated depreciation	-	(19,664)	(7,466)	(1,999)	(2,802)	(4,222)	(8,373)	(26,880)	(9,274)	(1,467)	(705)	-	(82,852)
Net book amount	34,809	39,227	16,649	1,665	21,298	10,669	36,669	19,496	25,501	75,244	(4,571)	6,839	**283,495**
Year ended 30 June 2018													
Opening net book amount	34,809	39,227	16,649	1,665	21,298	10,669	36,669	19,496	25,501	75,244	(4,571)	6,839	283,495
Revaluation surplus / (deficit)													-
Additions	3,847	2,407	870			1,732	639	16,522		12,918		(1,377)	37,558
Disposals								(2,096)					(2,096)
Depreciation charges		(2,155)	(912)			(905)	(736)	(8,378)		(471)			(13,557)
	38,656	39,479	16,607	1,665	21,298	11,496	36,572	25,544	25,501	87,691	(4,571)	5,462	**305,400**
At 30 June 2018													
Cost or valuation	38,656	61,298	24,985	3,664	24,100	16,623	45,681	60,802	34,775	89,629	(3,866)	5,462	401,809
Accumulated depreciation	-	(21,819)	(8,378)	(1,999)	(2,802)	(5,127)	(9,109)	(35,258)	(9,274)	(1,938)	(705)	-	(96,409)
Net book amount	38,656	39,479	16,607	1,665	21,298	11,496	36,572	25,544	25,501	87,691	(4,571)	5,462	**305,400**
Year ended 30 June 2019													
Opening net book amount	38,656	39,479	16,607	1,665	21,298	11,496	36,572	25,544	25,501	87,691	(4,571)	5,462	305,400
Revaluation surplus / (deficit)													-
Adjustment for consolidation		(1,290)	(203)			(551)	(1,343)	(6,303)				7,654	(2,036)
Additions/Transfers		2,081	224			625	2,162	9,043		123		11,159	25,417
Disposals/Transfers		(1,666)				1,666		(455)				(14,108)	(14,563)
Depreciation charges		(1,352)	(524)			(569)	(469)	(4,506)		(275)			(7,695)
	38,656	37,252	16,104	1,665	21,298	12,667	36,922	23,323	25,501	87,539	(4,571)	10,167	**306,523**
At 30 June 2019													
Cost or valuation	38,656	60,423	25,006	3,664	24,100	18,363	46,500	63,087	34,775	89,752	(3,866)	10,167	410,627
Accumulated depreciation	-	(23,171)	(8,902)	(1,999)	(2,802)	(5,696)	(9,578)	(39,764)	(9,274)	(2,213)	(705)	-	(104,104)
Net book amount	38,656	37,252	16,104	1,665	21,298	12,667	36,922	23,323	25,501	87,539	(4,571)	10,167	**306,523**

Part 3- Financials | Pūrongo Pūtea

Note 9(b)

During the year the Company borrowed funds for the acquisition of new Property, Plant & Equipment. Interest incurred during the acquisition period of $144,000 at rates of 3.30% to 4.53% (2017: $144,000) was capitalised.

Sea defences were revalued in 2017 by AECOM New Zealand Ltd and the revalued amounts included in the statement of financial position. The valuation has been prepared on an optimized depreciation replacement cost basis in accordance with NZ Infrastructure Asset Valuation and Depreciation Guidelines published by the NAMS group of IPWEA and Public Benefit Entity International Public Sector Accounting Standard 17.

Part 3- Financials | Pūrongo Pūtea

GROUP TOTALS	Council	Council Subsidiaries	Group total
At 1 July 2017			
Cost or valuation	29,111	366,347	395,458
Accumulated depreciation	(7,841)	(82,852)	(90,693)
Net book amount	**21,270**	**283,495**	**304,765**
Year ended 30 June 2018			
Opening net book amount	21,270	283,495	304,765
Revaluation surplus / (deficit)	-	-	-
Transfers	-	-	-
Additions	2,198	37,558	39,756
Disposals	(197)	(2,096)	(2,293)
Depreciation charges	(1,818)	(13,557)	(15,375)
Asset impairment losses	-	-	-
	21,453	**305,400**	**326,853**
At 30 June 2018			
Cost or valuation	31,112	401,809	432,921
Accumulated depreciation	(9,659)	(96,409)	(106,068)
Net book amount	**21,453**	**305,400**	**326,853**
Year ended 30 June 2019			
Opening net book amount	21,453	305,400	326,853
Revaluation surplus / (deficit)	5,834	-	5,834
Transfers	-	-	-
Additions	2,451	25,417	27,868
Disposals	(146)	(14,563)	(14,709)
Depreciation charges	(1,963)	(7,695)	(9,658)
Asset impairment losses	-	-	-
	27,629	**308,559**	**336,188**
At 30 June 2019			
Cost or valuation	39,251	410,627	449,878
Accumulated depreciation	(11,622)	(104,104)	(115,726)
Net book amount	**27,629**	**306,523**	**334,152**

Part 3- Financials | Pūrongo Pūtea

Note 10: Infrastructure Assets (Parent and 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	Regional Parks & Wetland Reserves $000	Pathway & Roadway $000	Capital Work in Progress $000	Total $000
At 1 July 2017																	
Cost or valuation		14,076	60,106	3,530	36,013	4,888	6,779	26,892	1,899	176	12,216	629	759	2,085	2,512	113	172,673
Accumulated depreciation		-	-	-	-	-	-	-	-	-	-	-	(439)	-	-	-	(439)
Net book amount		14,076	60,106	3,530	36,013	4,888	6,779	26,892	1,899	176	12,216	629	320	2,085	2,512	113	172,234
Year ended 30 June 2018																	
Opening net book amount		14,076	60,106	3,530	36,013	4,888	6,779	26,892	1,899	176	12,216	629	320	2,085	2,512	113	172,234
Revaluation surplus (refer Note 18)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additions		516	-	-	402	110	-	-	-	-	-	-	-	208	271	10	1,517
Transfers		-	-	-	-	-	-	-	-	-	-	-	-	-			-
Disposals		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(95)	(95)
Depreciation charges		-	-	(45)	-	(272)	(232)	-	-	(23)	-	-	(60)	(20)	-	-	(652)
Asset impairment		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		14,592	60,106	3,485	36,415	4,726	6,547	26,892	1,899	153	12,216	629	260	2,273	2,783	28	173,004
At 30 June 2018																	
Cost or valuation		14,592	60,106	3,530	36,415	4,998	6,779	26,892	1,899	176	12,216	629	759	2,293	2,783	28	174,095
Accumulated depreciation		-	-	(45)	-	(272)	(232)	-	-	(23)	-	-	(499)	(20)	-	-	(1,091)
Net book amount		14,592	60,106	3,485	36,415	4,726	6,547	26,892	1,899	153	12,216	629	260	2,273	2,783	28	173,004
Year ended 30 June 2019																	
Opening net book amount		14,592	60,106	3,485	36,415	4,726	6,547	26,892	1,899	153	12,216	629	260	2,273	2,783	28	173,004
Revaluation surplus	10(b)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additions		565	-	-		228	-	243	-	-	-	686	-	547	57	64	2,390
Transfers		-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
Disposals		-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
Depreciation charges		-	-	(47)	(1)	(283)	(248)	-	-	(24)	-	-	(60)	(21)	-	-	(684)
Asset impairment		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		15,157	60,106	3,438	36,414	4,671	6,299	27,135	1,899	129	12,216	1,315	200	2,800	2,840	92	174,709
At 30 June 2019																	
Cost or valuation	10(a)	15,157	60,106	3,530	36,415	5,226	6,779	27,135	1,899	176	12,216	1,315	759	2,840	2,840	92	176,485
Accumulated depreciation		-	-	(92)	(1)	(555)	(480)	-	-	(47)	-	-	(559)	(41)	-	-	(1,775)
Net book amount		15,157	60,106	3,438	36,414	4,671	6,299	27,135	1,899	129	12,216	1,315	200	2,800	2,840	92	174,709

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Note 10(a)

Infrastructure assets were valued by suitably experienced Council employees at 30 June 2019 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 $80,000 per hectare
- Ruataniwha Plains land protected from flooding was valued at $20,000 per hectare,
- floodable land that is grazed was valued at $6,000 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 Tūtira Reserve Assets were valued at 30 June 2016 by M H Morice, a registered valuer, of Morice Ltd on the basis of fair value. The total value of assets valued was $1,315,000.

Note 10(c)

Flood Control infrastructure assets are made up of all categories excluding Pathway & Roadway and Capital work in progress. All acquisitions are assets contracted by Council.

The most recent estimate of the replacement cost of the flood control infrastructure assets was $201,694,000 as at 30 June 2019.

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Note 11: Investment Property

	Note	Regional Council Actual 18/19 $000	Regional Council Actual 17/18 $000	Group Actual 18/19 $000	Group Actual 17/18 $000
At beginning of year		47,102	49,047	54,387	51,907
Additions			-	-	3,951
Fair value gains / (losses) (included in income statement)	**11(a)**	5,005	2,911	5,690	3,385
Disposals		(3,714)	(4,856)	(3,714)	(4,856)
Transfers	**11(b)**			-	-
Movement during the year		1,291	(1,945)	1,976	2,480
At end of year		**48,393**	**47,102**	**56,363**	**54,387**
Investment property includes:					
Endowment leasehold land	**11(c)**	30,645	30,197	30,645	30,197
Other leasehold land		17,300	16,500	25,270	23,785
Rental Property		448	405	448	405
		48,393	**47,102**	**56,363**	**54,387**

Note 11(a)

Napier leasehold endowment land was valued as a portfolio at 30 June 2019 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 6.75%. The total fair value of property valued by Trevor W Kitchin as an independent valuer was $30,645,000 (2017/18 $30,197,000). Telfer Young (Hawke's Bay) Ltd is an experienced valuer with extensive market knowledge in the types and location of land owned by the Council.

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Wellington leasehold land was valued as portfolio at 31 May 2019 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 7.50-8.00%. The total fair value of the twelve properties valued by Martin J Veale as an independent valuer was $17,300,000 (2017/18 $16,500,000).

Telfer Young (Wellington) Ltd is an experienced valuer with extensive market knowledge in the types and location of land owned by the Council.

Property at Tūtira was valued at 31 May 2019 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 $448,000 (2017/18 $405,000).

Morice Ltd is an experienced valuer with extensive market knowledge in the type and location of the property owned by the Council.

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

		Regional Council		Group	
	Note	Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Rental income	5	2,576	2,593	4,062	2,658
Direct operating expense arising from investment properties that generate rental income		(81)	(88)	(81)	(92)
		2,495	**2,505**	**3,981**	**2,566**

Note 11(c)

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.

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Note 12: Intangible Assets

COUNCIL Only	Note	Computer Software / Development Expenditure $000	Carbon Credits $000	Work-in Progress $000	Council Total $000	Group Actual $000
At 1 July 2017						
Cost or valuation		5,921	1,211	-	7,132	32,966
Accumulated amortisation		(2,662)	-	-	(2,662)	(18,805)
Net book amount		3,259	1,211	-	4,470	14,161
Year ended 30 June 2018						
Opening net book amount		3,259	1,211	-	4,470	14,161
Transfers		-	-	-	-	-
Revaluations		-	283	-	283	283
Additions		164	-	791	955	1,371
Disposals		-	-	-	-	(7,826)
Impairment		-	-	-	-	-
Amortisation charges		(435)	-	-	(435)	(1,155)
		2,988	1,494	791	5,273	6,834
At 30 June 2018						
Cost or valuation		6,085	1,494	791	8,370	15,054
Accumulated amortisation		(3,097)	-	-	(3,097)	(8,220)
Net book amount		2,988	1,494	791	5,273	6,834
Year ended 30 June 2019						
Opening net book amount		2,988	1,494	791	5,273	6,834
Transfers		-	-	-	-	-
Revaluations		-	1,290	-	1,290	1,290
Additions		201		1,017	1,218	1,256
Disposals		-	-	-	-	-
Impairment		-	-	-	-	-
Amortisation charges		(434)	-	-	(434)	(835)
		2,755	2,784	1,808	7,347	8,545
At 30 June 2019						
Cost or valuation	12(a)	6,286	2,784	1,808	10,878	17,600
Accumulated amortisation		(3,531)	-	-	(3,531)	(9,055)
Net book amount		2,755	2,784	1,808	7,347	8,545

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Note 12(a)

In accordance with Note 2.14 intangible 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.

Carbon Credits

These credits have been gained from the normal forestry and berm enhancement operations of Council.

The amount of carbon units have been valued using market value of $23.10 per unit as at 30 June 2019 (30 June 2018 $21.10 per unit) Council policy is to only sell safe carbon which would offer no liability to repay credits at harvest.

GROUP	Note	Computer Software $000	Carbon Credits $000	Development Expenditure $000	Group Actual $000
At 1 July 2017					
Cost or valuation		12,189	1,211	19,566	32,966
Accumulated amortisation		(7,065)	-	(11,740)	(18,805)
Net book amount		5,124	1,211	7,826	14,161
Year ended 30 June 2018					
Opening net book amount		5,124	1,211	7,826	14,161
Transfers		-		-	-
Additions		1,371	-	-	1,371
Disposals		-	-	(7,826)	(7,826)
Impairment		-	-	-	-
Amortisation charges		(1,155)	-	-	(1,155)
		5,340	1,211	-	6,551
At 30 June 2018					
Cost or valuation		13,560	1,494	-	15,054
Accumulated amortisation		(8,220)	-	-	(8,220)
Net book amount		5,340	1,494	-	6,834
Year ended 30 June 2019					
Opening net book amount		5,340	1,494	-	6,834
Transfers		-	1,290	-	1,290
Additions		1,256	-	-	1,256
Disposals		-	-	-	-
Impairment		-	-	-	-
Amortisation charges		(835)	-	-	(835)
		5,761	2,784	-	8,545
At 30 June 2019					
Cost or valuation	12(a)	14,816	2,784	-	17,600
Accumulated amortisation		(9,055)	-	-	(9,055)
Net book amount		5,761	2,784	-	8,545

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Note 13: Other Financial Assets

	Note	Regional Council Actual 18/19 $000	Regional Council Actual 17/18 $000	Group Actual 18/19 $000	Group Actual 17/18 $000
Other financial assets					
Current portion					
Term deposits with maturities 92 - 365 days		3,000	55,868	3,000	55,868
Loan to Hawke's Bay Regional Investment Company					
Government bonds		257	500	257	500
Community loans		853	848	853	848
Total current portion		**4,110**	**57,216**	**4,110**	**57,216**
Non-current portion					
Government bonds		1,181	870	1,181	870
Community loans		7,680	7,630	7,680	7,630
Funds under Management		41,910	-	41,910	-
Publicly listed shares		801	795	801	795
Civic Assurance shares		18	18	18	18
Other financial assets		**51,590**	**9,313**	**51,590**	**9,313**
Advances to Napier / Gisborne Rail		236	218	236	218
Shares in Hawke's Bay Regional Investment Company		340,396	283,500	-	-
Total non-current portion		**392,222**	**293,031**	51,826	9,531
Total other financial assets		**396,332**	**350,247**	**55,936**	**66,747**

Fair Value

Term deposits
The carrying amount of term deposits approximates their fair value.

The effective interest rate on bank deposits with terms greater than 91 days but less than 365 days was 3.08% (2017/18 3.47%). These deposits have an average maturity of 124 days (2017/18 206 days).

Government & LGFA bonds
The fair value of government and LGFA bonds is $1,440,968 (2017/18 $1,370,000). Fair value has been determined using quoted market prices from an independent source.

The effective interest rate on government bonds was 3.18% (2017/18 3.02%).
This stock has an average maturity of 7.7 years (2017/18 8.1 years).

Publicly listed shares
Publicly listed shares are recognised at fair value. Fair value has been determined using quoted market prices from an independent source.

Shares in Hawkes's Bay Regional Investment Company
Council's shareholding in the Hawke's Bay Regional Investment Company Ltd was valued to fair value on 11 September 2019 by independent valuers, BDO New Zealand. The total fair value was $340,396.00. The valuation of HBRIC Ltd was based on the Port of Napier valuation as at 30 June 2019. The valuation of HBRIC Ltd included a deduction for the value of debt and future

Community loans
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 4.00% - 7.02% and on Clean heat loans at between 2.00% - 3.51% at the inception of the loan.

At beginning of year	8,478	9,021	8,478	9,021
Additional loans	1,908	1,268	1,908	1,268
Repayments	(1,853)	(1,811)	(1,853)	(1,811)
At end of year	**8,533**	**8,478**	**8,533**	**8,478**

Impairment
There were no impairment provisions on other financial asssets in current or prior years

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Note 14: Investment in Joint Venture

	Note	Regional Council Actual 18/19 $000	Regional Council Actual 17/18 $000	Group Actual 18/19 $000	Group Actual 17/18 $000
Investment in Joint Venture					
Shares in Longburn Intermodal Freight Hub Ltd		-	-	-	823
Total		-	-	-	823
Movements in the carrying value of joint venture					
Opening Balance				823	884
New Investment				50	110
Share of recognised revenues and expenditure				(75)	(39)
Provision				(798)	(132)
Balance at end of year		-	-	-	823
Summarise financial information of joint venture					
Assets				3,445	3,292
Liabilities				(341)	(236)
Net Assets 100%		-	-	3,104	3,056
Port of Napier Limited share (33.3%)				1,035	1,019
less provision				(1,035)	(196)
				(0)	823
Revenues				170	226
Net Profit after tax				(226)	(21)
Port of Napier Limited share (33.3%)		-	-	(75)	(7)

Longburn Intermodal Freight Hub Limited (LIFH) was set up as a joint venture to develop a facility at Longburn near Palmerston North to provide container storage and logistics solutions. The net assets of LIFH are pre any impairment consideration in their individual statutory financial statements.

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Note 15: Forestry Assets

	Note	Regional Council Actual 18/19 $000	Regional Council Actual 17/18 $000	Group Actual 18/19 $000	Group Actual 17/18 $000
At beginning of year		10,698	9,769	10,698	9,769
Additions		-	160	-	160
Fair value gains (included in Statement of Comprehesive Revenue and Expenditure)		784	943	784	943
Fair value (losses) (included in Statement of Comprehesive Revenue and Expenditure)		-	(174)	-	(174)
Disposals		-	-	-	-
Reclassification to Plant, Property & Equipment		-	-	-	-
Movement during the year		784	929	784	929
At end of year		**11,482**	**10,698**	**11,482**	**10,698**
Forestry assets include:					
Forestry on Council Owned Land					
Lake Tutira Country Park Forestry Crop	15(a)	4,785	4,699	4,785	4,699
Waihapua Carbon Sequestration Forestry Crop	15(b)	685	513	685	513
Rural Waste Water Disposal Forestry Crops	15(c)	606	333	606	333
Tutira Manuka Honey Forestry	15(d)	382	328	382	328
Forestry on Council Managed Land					
Tangoio Soil Conservation Reserve Forestry Crop	15(e)	5,022	4,823	5,022	4,823
Joint Venture Forestry					
Joint Venture Forestry Rights	15(f)	2	2	2	2
		11,482	**10,698**	**11,482**	**10,698**

Forestry assets on Council owed land comprise a total of 661 hectares of mixed forestry crops situated in the Lake Tūtira Country Park (114 ha), Tūtira Manuka Forestry (130 ha), Mahia (36 ha), Waihapua (213 ha), Central Hawke's Bay (168 ha). During the period no forest crops were logged (2017/18 Nil ha).

Council owned forestry assets were fair valued to $6,460,000 at 31 May 2019 (2017/18 $5,875,000) by M H Morice, a registered valuer, of Morice Ltd.

Valuation assumptions

The following significant valuation assumptions have been adopted in determining the fair value of forestry assets:

Traditional Forestry Crop

- A discount rate of 6.5% has been used for post tax cash flows for traditional forestry and 12% for the Manuka forest.
- a rotation of 27 years
- an inflation adjustment of 2.0%
- Log Prices adopted $/m3

Grade	PradHB	PradNHB	XHB	XNHB
aP35	190	185	100	95
bSP35	170	165	100	95
dA40	141	136	100	95
eA30	133	128	100	95
fK	128	123	70	65
gKI	115	110	70	65
hKIS	102	97	70	65
iPulp	51	51	65	65

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Manuka Crop

A discount rate of 12% for the Manuka forest.

30kg honey produced per hive, one hive per hectare and honey at $40/kg.

Expenses included in the discounted cashflow for land rent, pest control and administration.

Note 15(a)

Lake Tūtira Country Park Forestry Crop consists of radiata plantings on 114 hectares situated at Tūtira Country Park. These forestry assets were valued to $4,785,000 by Morice Limited, independent valuers at 31 May 2019 (2017/18 $4,699,000). The valuation assumed a discount rate of 6.5%.

Note 15(b)

Council's carbon sequestration forestry assets consist of 212 hectares of mixed plantings situated at Waihapua. These forestry assets were fair valued to $685,000 by Morice Limited, independent valuers at 31 May 2019 (2017/18 $513,000). The valuation assumed a discount rate of 6.5%.

Note 15(c)

Council's wastewater disposal forestry assets consist of eucalyptus and radiata pine plantings on 67 hectares at Pourere Road Waipawa, and 101 hectares at Mangatarata Road, Waipukurau and 36 hectares at Kinikini Road Mahia. These forestry assets were fair valued to $606,000 by M H Morice of Morice Limited, independent valuers at 31 May 2019 (2017/18 $333,000). The valuation assumed a discount rate of 6.5%.

Note 15(d)

Council is developing 130 hectares of Manuka forestry at Tūtira for honey production. These forestry assets were fair valued at $382,000 by M H Morice of Morice Limited, independent valuers at 31 May 2019. (2017/18 $328,000) The valuation assumed a discount rate of 12.0%.

Note 15(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 15(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 15(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.

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Note 16: Trade & Other Receivables

	Note	Regional Council Actual 18/19 $000	Regional Council Actual 17/18 $000	Group Actual 18/19 $000	Group Actual 17/18 $000
Trade receivables	16(a)	4,210	6,228	20,613	19,505
Less: provision for impairment of receivables	16(b)	(23)	(23)	(23)	(23)
Trade receivables - net		**4,187**	**6,205**	**20,590**	**19,482**
Prepayments		406	255	1,738	630
GST Receivable		919	472	919	472
Accrued income		4,079	2,743	4,079	2,743
Work-in-progress		(2)	235	(2)	235
Intercompany receivables		448	59	-	0
Trade & other receivables	16(c&d)	**10,038**	**9,969**	**27,326**	**23,562**
Total Trade & other receivables comprise:					
Receivables from non-exchange transactions - this includes outstanding rates, grants and fees/charges that are partly subsidised by rates.		10,038	9,969	10,038	9,969
Receivables from exchange transactions - this includes outstanding amounts for commerical sales and fees and charges not subsidised by rates.		-	-	17,288	13,593
		10,038	**9,969**	**27,326**	**23,562**

All trade and other receivables are included as non-exchange transactions as all of Council's receivables are partly subs by rates and investment income

Current trade and other receivables	10,038	9,969	27,326	23,562
Non-current trade and other receivables	-	-	-	-
	10,038	**9,969**	**27,326**	**23,562**
Other Advances				
Advances to Council controlled organisations	**6,500**	-	-	-

Note 16(a)

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

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Note 16(b)

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

	Regional Council		Group	
	Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
At beginning of year	23	23	23	23
Additional provisions made during the year	46	46	46	46
Receivables written off during the year	(46)	(46)	(46)	(46)
	-	-	-	-
At end of year	**23**	**23**	**23**	**23**

Note 16(c)

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

Note 16(d)

The status of trade receivables at reporting dates is set out below:

	Regional Council			Group		
	Gross $000	Impairment $000	Net $000	Gross $000	Impairment $000	Net $000
18/19						
Not past due	1,775	-	1,775	15,326	-	15,326
Past due 31 - 60 days	108	-	108	2,928	-	2,928
Past due 61 - 90 days	37	-	37	69	-	69
Past due > 90 days	2,290	(23)	2,267	2,290	(23)	2,267
	4,210	(23)	4,187	20,613	(23)	20,590
17/18						
Not past due	3,477	-	3,477	13,844	-	13,844
Past due 31 - 60 days	858	-	858	3,670	-	3,670
Past due 61 - 90 days	28	-	28	126	-	126
Past due > 90 days	1,865	(23)	1,842	1,865	(23)	1,842
	6,228	(23)	6,205	19,505	(23)	19,482

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Note 17: Derivative Financial Instruments

	Note	Regional Council Actual 18/19 $000	Regional Council Actual 17/18 $000	Group Actual 18/19 $000	Group Actual 17/18 $000
Assets					
Interest rate swaps at fair value	17(a)	-	-	-	-
Foreign exchange option				-	-
Forward exchange contracts at fair value		-	-	-	-
Total		**-**	**-**	**-**	**-**
Less Non-current portion:					
Interest rate swaps at fair value		-	-	-	-
Forward exchange contracts at fair value		-	-	-	-
		-	**-**	**-**	**-**
Current portion		**-**	**-**	**-**	**-**
Liabilities					
Interest rate swaps at fair value	17(a)	-	(13)	(6,020)	(5,212)
Forward exchange contracts at fair value		-	-	-	-
Total		**-**	**(13)**	**(6,020)**	**(5,212)**
Less Non-current portion:					
Interest rate swaps at fair value		-	(13)	(4,312)	(3,718)
Forward exchange contracts at fair value		-	-	-	-
		-	**(13)**	**(4,312)**	**(3,718)**
Current portion		**-**	**-**	**(1,708)**	**(1,494)**

Note 17(a)

The notional principal amounts of the outstanding interest rate swap contracts at 30 June 2019 were 84,500,000 (2017-18 120,000,000). Of these, 54,500,000 of the notional principal amounts were active at 31 March 2019.

There were a further 30,000,000 of forward starting future dated swaps.

At 31 March 2019, the various interest rates were in the range of 3.74% to 6.45% (2018-19 3.62% to 5.41%).

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Note 18: Cash and Cash Equivalents

	Note	Regional Council		Group	
		Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Cash at bank and in hand	18(a)	25,417	10,512	29,209	10,777
Short-term bank deposits	18(b)	3,018	16,797	3,018	16,797
		28,436	**27,309**	**32,227**	**27,574**

Note 18(a)

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

Note 18(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.

There were short-term bank deposits of $3,018,000 as at 30 June 2019 (2017/18 $16,797,000). The average deposit maturity after balance date was 30 days (2017/18 30 days).

Note 18(c) Reconciliation of Cash

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

	Regional Council		Group	
	Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Bank overdrafts	-	-	(129)	-
Cash and cash equivalents	28,436	27,309	32,227	27,574
	28,436	**27,309**	**32,098**	**27,574**

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Note 18(d) Reconciliation of Surplus after Tax to Net Cash Flows from Operations

Net Surplus on Operations	2,568	2,593	11,944	926
Add (Less) Non-Cash Items:				
Fair value gains	(5,802)	(3,697)	(6,487)	(4,171)
Fair value losses	-	-	-	-
Depreciation	3,081	2,905	14,330	14,414
(Loss) on disposal of assets	(41)	9	(41)	7,834
ACC liability movement	475	863	475	863
Vested asset	-	-	-	-
Impairment of assets	-	-	-	555
Share of loss of equity accounted investee	-	-	884	171
Deferred tax	-	-	(79)	(1,016)
Add (Less) Movement in Working Capital Items:				
(Increase)/decrease in inventories	9	(87)	9	(87)
(Increase)/decrease in trade & other receivables	(69)	(1,156)	(3,208)	(3,250)
(Increase)/decrease in tax receivables	-	-	440	(44)
(Decrease)/increase in trade & other payables	406	647	2,735	930
(Decrease)/Increase in employee entitlement liabilities	179	77	179	77
Add (Less) Items Classified as Investing or Financing Activities:				
Movement in non-current provisions	994	(949)	1,067	(1,063)
Non cash revenue adjustments			612	230
Net (Gain) / Loss on sale of non-current assets	-	-	(13)	146
Net Cash Inflow from Operating Activities	**1,799**	**1,205**	**22,846**	**16,515**

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Note 19: Fair Value Reserves

		Parent								Parent
		Land	Buildings	Hydrological Assets	Infrastructure Assets	Carbon Credits	Other Financial Assets	HBRIC Ltd	Investment Properties	Total
	Note	$000	$000	$000	$000	$000	$000	$000	$000	$000
COUNCIL Only										
At 1 July 2017		907	1,213	74	99,210	1,211	427	57,724	-	160,766
Year ended 30 June 2018										
Reclassification transfer						-				-
Revaluation - gross					-	283	118	48,276		48,677
		-	-	-	-	283	118	48,276	-	48,677
At 30 June 2018		907	1,213	74	99,210	1,494	545	106,000	-	209,443
Year ended 30 June 2019										
Reclassification transfer										-
Revaluation - gross		3,158	1,844	763	592	1,290	1,983	56,896		66,526
		3,158	1,844	763	592	1,290	1,983	56,896	-	66,526
At 30 June 2019		4,065	3,057	837	99,802	2,784	2,528	162,896	-	**275,969**

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	Note	Land	Buildings	Hydrological Assets	Infrastructure Assets	Carbon Credits	Sea Defences	Other Financial Assets	Investment Properties	Hedged Transactions	Group Total
		$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
GROUP											
At 1 July 2017		907	1,213	74	99,210	1,211	62,076	358		(3,230)	161,819
Year ended 30 June 2018											
Reclassification transfer		-	-	-	-	-	-				-
Revaluation - gross		-	-	-	-	283	9,495	(396)			9,382
		-	-	-	-	283	9,495	(396)	-	-	9,382
At 30 June 2018		907	1,213	74	99,210	1,494	71,571	(38)	-	(3,230)	171,201
Year ended 30 June 2019											
Reclassification transfer		-	-	-	-	-	-	-		-	-
Revaluation - gross		3,158	1,844	763	592	1,290	3,948	1,910		(2,566)	10,939
Effect on consolidation		-	-	-	-			73	-		73
		3,158	1,844	763	592	1,290		1,983	-	(2,566)	11,012
At 30 June 2019		4,065	3,057	837	99,802	2,784	75,519	1,907	-	(5,796)	182,175

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Note 19(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 20: Accumulated Funds

	Regional Council		Group	
	Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Accumulated funds				
Balance at 1 July	305,237	302,662	260,219	260,924
Surplus / (deficit) for the year	2,568	2,593	11,944	926
Transfers to / from other reserves	49,691	(17)	52,094	(17)
Reclassification transfer			-	-
Dividends received / (paid)			-	-
Effect on consolidation			-	(1,613)
Balance at 30 June	**357,496**	**305,237**	**324,256**	**260,219**

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Note 20(a): Other Reserves (Parent & Group)

	Note	Infra-structure Asset Renewal (1) $000	Wairoa Rivers & Streams (2) $000		Special Scheme (3) $000	Port Dividend Equal-isation (4) $000	Coastal Marine Area (5) $000	Specific Regional Projects (6) $000	Asset Replace-ment (7) $000	Regional Disaster Damage (8) $000	Scheme Disaster Damage (9) $000	Clive River Dredging (10) $000	Tangoio Reserve Fund (11) $000	Maunga-haruru Tangitu (12) $000	Sale of Land Invmt (13) $000	Sale of Land Non-Invmt (14) $000	Rabbit Re-serve (15) $000	Ngati Pahau-wera (16) $000	Westshore Reserve (17) $000	Total $000
At 1 July 2017		1,683	884		5,025	-	-	-	998	2,261	3,589	436	3,270	257	61,439	987	66	174		81,048
Net fair value gains																				-
Interest income / (expense)			23		145				12	51	97		96				2	4		430
Rental income - net																				-
Depreciation transfers		840							2,251											3,091
Trading gain / (loss)									568											568
Transfers / (use of) reserves		(497)	5		1,385	-			(1,030)	(249)	(287)	484	(290)	(14)	(1,404)	(289)		(84)		(2,270)
Asset purchases - net									(3,086)											(3,086)
Borrowings - net									1,285											1,285
		343	28		1,530	-	-	-	-	(198)	(190)	484	(194)	(14)	(1,404)	(289)	2	(80)	-	18
At 30 June 2018		**2,026**	**912**		**6,555**	-	-	-	**998**	**2,063**	**3,399**	**920**	**3,076**	**223**	**60,035**	**698**	**68**	**94**	-	**81,066**
Net fair value gains / (losses)																				-
Interest income / (expense)			4		(109)				32					5			1	2		(65)
Rental income - net																				-
Depreciation transfer									2,361			76								2,437
Trading gain / (loss)									490											490
Transfers / (use of) reserves		179	24		(2,920)				(67)	287	189	(80)	(275)	54	(48,358)	184		(20)	(219)	(51,022)
Asset purchases - net									(2,128)											(2,128)
Borrowings - net									597											597
		179	28		(3,029)	-	-	-	1,285	287	189	(4)	(275)	59	(48,358)	184	1	(18)	(219)	(49,691)
At 30 June 2019		**2,205**	**940**		**3,526**	-	-	-	**2,283**	**2,350**	**3,588**	**916**	**2,801**	**282**	**11,677**	**882**	**69**	**76**	**(219)**	**31,375**

Part 3- Financials | Pūrongo Pūtea

Nature and purpose of reserves

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

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

[3] 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.

4] 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.

[5] 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.

[6] 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 1st July 2003.

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

[8] Regional disaster damage reserve
A reserve established to provide funding for the cost of responding to and managing an event; cost of reinstatement of any uninsured assets (e.g., pathways on top of stopbanks); any difference policy with private insurers to cover 40% of the loss up to $24 million in the event of a disaster; more than the optimised replacement value

[9] 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.

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

[11] 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.

[12] Maungaharuru Tangitu reserve
A reserve established as a catchments fund in accordance with the Maungaharuru-Tangitu Claims Settlement Act. It is agreed to transfer $100,000 per year from the Tangoio Soil Conservation Reserve Fund to enable environmental enhancement.

[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 on25 June 2008 and Council's Investment Policy set out in the 2009/19 10 Year 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

Part 3- Financials | Pūrongo Pūtea

Note 21: Borrowings

	Note	Regional Council		Group	
		Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Non-current					
Bank borrowings		17,685	19,125	98,385	105,711
Finance lease obligations		-	-	-	-
		17,685	**19,125**	**98,385**	**105,711**
Current					
Bank overdrafts		-	-	129	-
Bank borrowings		3,900	3,900	3,900	9,600
Finance lease obligations		-	-	-	-
		3,900	**3,900**	**4,029**	**9,600**
Total borrowings		**21,585**	**23,025**	**102,414**	**115,311**

21(a): Security

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

The Port loans are secured by way of a negative pledge over the assets of the Port in respect of both sale of such assets and other security interests.

BNZ holds security stock certificates of $22m maintained within councils Debenture Trust Deed.

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21(b) Maturity analysis of borrowings such assets and other security interests.

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		Group	
	Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
6 months or less	-	-	(6,371)	-
Between 6 and 12 months	250	-	6,750	5,686
Between 1 and 2 years	1,000	500	42,718	43,000
Between 2 and 5 years	5,634	3,500	44,616	47,600
Over 5 years	14,701	19,025	14,701	19,025
	21,585	**23,025**	**102,414**	**115,311**

21(c) Effective interest rates

The effective interest rates at the balance sheet date were as follows:

	Regional Council		Group	
	Actual 18/19 %	Actual 17/18 %	Actual 18/19 %	Actual 17/18 %
Effective interest rate ranges	2.35 - 6.46	3.85 - 6.46	2.89 - 6.46	2.80 - 6.46

21(d) Fair values

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

	Regional Council		Group	
	Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Bank borrowings	19,112	19,609	106,312	111,895
	19,112	**19,609**	**106,312**	**111,895**

21(e) Undrawn facilities

The Group has the following undrawn borrowing facilities:

	Regional Council		Group	
	Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Bank overdraft	5,000	-	5,871	1,000
Bank borrowings	-	-	42,800	33,400
	5,000	**-**	**48,671**	**34,400**

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21(f) Internal Borrowings

The following internal borrowings have been funded by Council reserves.

The fair values as based on cash flows discounted using a rate based on the borrowing rate of 2.52% (2017/18 4.55%).

The carrying amount of borrowings repayable within one year approximate their fair value

	Regional Council		Group	
	Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Internal Loan Opening Balance				
Council Wide Activity				
Dalton Street Building Remediation	-	-	-	-
Computer Equipment	420	500	420	500
Bus Ticketing System	40	1,140	40	1,140
Tutira Land Loan	100			
Hydrology Equipment	980			
Groups of Activities				
Land, Drainage and River Control				
Makara Scheme	200	206	200	206
	1,740	**1,846**	**660**	**1,846**
Internal Loans Borrowed during the year				
Council Wide Activity				
Dalton Street Building Remediation	-	-	-	-
Computer Equipment	-	-	-	-
Bus Ticketing System	100	-	100	-
Tutira Land Loan	-	100		
Hydrology Equipment	96	40		
Biodiversity	100			
Groups of Activities				
Land, Drainage and River Control				
Makara Scheme	-	-	-	-
	296	**140**	**100**	-
Internal Loans Repaid during the year				
Council Wide Activity				
Dalton Street Building Remediation	-	-	-	-
Computer Equipment	80	80	80	80
Bus Ticketing System	4	160	4	160
Tutira Land Loan	-	-		
Hydrology Equipment	160	-		
Biodiversity				
Groups of Activities				
Land, Drainage and River Control				
Makara Scheme	7	6	7	6
	251	**246**	**91**	**246**
Internal Loan Closing Balance				
Council Wide Activity				
Dalton Street Building Remediation	-	-	-	-
Computer Equipment	340	420	340	420
Bus Ticketing System	136	980	136	980
Tutira Land Loan	100			
Hydrology Equipment	916	100		
Biodiversity	100	40		
Groups of Activities				
Land, Drainage and River Control				
Makara Scheme	193	200	193	200
	1,785	**1,740**	**669**	**1,600**
Interest Paid during the year				
Council Wide Activity				
Dalton Street Building Remediation	-	-	-	-
Computer Equipment	11	16	11	16
Bus Ticketing Systems				
Groups of Activities				
Land, Drainage and River Control				
Makara Scheme	6	7	6	7
Regional Resources				
Clean Heat	-	-	-	-
Hydrology Equipment	10	23	10	23
Emergency Management				
Hydrology Equipment	16	15	16	15
	43	**61**	**43**	**61**

Part 3- Financials | Pūrongo Pūtea

Note 22: Deferred Income Tax (Group)

	Note	Property, Plant & Equipment $000	Derivatives $000	Other $000	Total $000
Balance at 1 July 2017		**(20,917)**	**1,256**	**681**	**(18,980)**
Charged to surplus or deficit re current year		1,016			1,016
Adjustment prior year provision		5			5
Charged to surplus or deficit		**1,021**	-	-	**1,021**
Charges to other comprehensive revenue and expense		(3,268)	199		(3,069)
Balance at 30 June 2018		**(23,164)**	**1,455**	**681**	**(21,028)**
Charged to surplus or deficit re current year		79			79
Adjustment prior year provision		(574)			(574)
Charged to surplus or deficit		**(495)**	-	-	**(495)**
Charges to other comprehensive revenue and expense		4,216	244		4,460
Balance at 30 June 2019		**(19,443)**	**1,699**	**681**	**(17,063)**

Part 3- Financials | Pūrongo Pūtea

Note 23: Employee Benefit Liabilities

		Regional Council		Group	
		Actual 18/19	Actual 17/18	Actual 18/19	Actual 17/18
	Note	$000	$000	$000	$000
Annual leave		1,158	1,047	4,010	3,732
Long service leave		341	336	815	757
Sick leave		35	26	35	26
Retirement gratuities		194	229	194	229
Other short term benefits		-	-	-	-
Accrued payroll expenses		910	821	910	821
Total employee benefit liabilities	**23(a)**	**2,638**	**2,459**	**5,964**	**5,565**
Disclosed as:					
Non-current		1,429	543	1,903	964
Current		1,209	1,916	4,061	4,601
		2,638	**2,459**	**5,964**	**5,565**

Item 4

Attachment 1

Part 3- Financials | Pūrongo Pūtea

23(a) Movement in employee benefit liability

	Regional Council		Group	
	Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
At beginning of year	2,459	1,561	5,565	4,875
Additional provisions	2,566	2,223	2,682	2,311
Unused amounts reversed	(78)	(44)	(78)	(44)
Used during the year	(2,309)	(1,281)	(2,205)	(1,577)
Movement during the year	179	898	399	690
At end of year	**2,638**	**2,459**	**5,964**	**5,565**

Note 24: Trade and Other Payables

	Note	Regional Council Actual 18/19 $000	Regional Council Actual 17/18 $000	Group Actual 18/19 $000	Group Actual 17/18 $000
Trade payables		4,538	2,843	9,768	6,809
Accrued expenses		4,072	4,450	6,963	6,444
Deposits & advances		869	1,780	869	1,780
Intrabusiness payables		-	-	-	-
		9,480	**9,074**	**17,600**	**15,034**
Total trade and other payables comprise:					
Payables and deferred revenue from non-exchange transactions - rates paid in advance (Includes Clean Heat rates in advance.)		1,713	1,652	1,713	1,652
Payables and deferred revenue from exchange transactions - amounts payable on commercial transactions		7,767	7,422	15,888	13,382
		9,480	**9,074**	**17,600**	**15,034**

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.

Part 3- Financials | Pūrongo Pūtea

Note 25: Provisions for Other Liabilities and Charges

		Regional Council		Group	
	Note	Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Current portion:					
ACC Leasehold Liability	25(a)	668	745	668	745
		668	**745**	**668**	**745**
Non-current portion:					
ACC Leasehold Liability	25(a)	11,740	14,086	11,740	14,086
Other Liabilities		29	29	29	29
		11,768	**14,115**	**11,768**	**14,115**
Total		**12,436**	**14,860**	**12,436**	**14,860**

Movements for each class of provision are as follows:

Council and Group	ACC Leasehold Liability $000	Other Liabilities $000	Total $000
2018			
Balance at 1 July 2017	18,820	30	18,849
Additional provisions made	863		863
Amount used	(4,851)	(1)	-4,852
Unused amounts reversed			0
Discount unwind			0
Balance at 30 June 2018	**14,832**	**29**	**14,860**
2019			
Balance at 1 July 2018	14,832	29	14,860
Additional provisions made	475		475
Amount used	(2,899)		(2,899)
Unused amounts reversed			-
Discount unwind			-
Balance at 30 June 2019	**12,408**	**29**	**12,436**

Note 25(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 as compensation for lost rental income over the 50 term from the property freeholded.

Part 3- Financials | Pūrongo Pūtea

Note 26: Related-Party Disclosures (Group)

	Note	Actual 18/19 $000	Actual 17/18 $000
26(a) The following transactions were carried out with subsidiaries:			
(i) Sales of services			
By parent		770	81
By subsidiary		28	31
		798	112
(ii) Purchases of services			
By parent		28	31
By subsidiary		770	81
		798	112
(iii) Subvention payments			
Received by parent		32	144
Paid by subsidiary		32	144
		64	288
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		10,000	10,000
Paid by subsidiary		10,000	10,000
		20,000	20,000
(v) Loans			
Paid by parent		6,500	-
Received by subsidiary		6,500	-
		13,000	-

26(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).

As part of the Constitution of Hawke's Bay Tourism Limited, HBRC are entitled to appoint one Director to the Board of Hawke's Bay Tourism Limited. This position was filled by Councillor Tom Belford for the 2018/19 year. HBRC have paid Hawke's Bay Tourism Limited $1,520,000 (excl. GST) in the 2018/19 year as per the funding agreement.

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

Receivables from related parties		
Parent	448	59
Subsidiary	-	-
	448	59
Payables to related parties		
Parent	-	-
Subsidiary	448	59
	448	59

26(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 (2017/18 $nil).

Part 3- Financials | Pūrongo Pūtea

Note 27: Commitments and Contingencies

27(a) Capital commitments

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

	Note	Regional Council		Group	
		Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Property, plant & equipment					
Property, plant and equipment		-	-	515	1,514
		-	**-**	**515**	**1,514**

Napier Port have entered into various capital contracts that have not yet incurred. These include highway maintenance and replacement equipment.

27(b) Operating lease commitments as lease

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:

Not later than one year	-	120	-	352
Later than one year but not later than five years	-	83	797	929
Later than five years	-	-	-	183
	-	**203**	**797**	**1,464**

Part 3- Financials | Pūrongo Pūtea

27(c) Operating lease commitments as leasor

Napier leasehold land is leased under operating leases with annual rent payments set for a period of 21 years as at 30 June 2019 the annual rent receivable by Council is $1,272,204 (2018 $1,462,451)

At the expiry of the 21 year lease term a rent renewal will be calculated on the current land value. These leases will keep renewing as long as the land is owned by Council. Leasehold properties may be freeholded at any time at an amount calculated by an independent valuer. The annual rent receivable figures above assume no freeholding will take place.

27(d) Contingencies

In respect of the Council only:

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 2019 are $2,800,000 (2017/18 $3,076,000).

Part 3- Financials | Pūrongo Pūtea

Note 28: Local Government Act 2002 Disclosures

28(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, was 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.

2018/19 Elected Members	Salary 18/19 $	Hearing Fees 18/19 $	Councillor Allowances 18/19 $	Total Remuneration 18/19 $
Fenton Wilson	51,614	-	13,603	65,217
Alan Dick	64,517	-	1,883	66,400
Debbie Hewitt	51,614	-	7,133	58,747
Rex Graham	119,442	-		119,442
Peter Beaven	64,517	-	2,691	67,208
Rick Barker	51,614	-	2,397	54,010
Tom Belford	64,517	-	2,704	67,208
Neil Kirton	64,517	-	1,442	65,959
Paul Bailey	51,614	-	1,638	53,252
	583,965	**-**	**33,490**	**617,455**

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.

2017/18 Elected Members	Salary 17/18 $	Hearing Fees 17/18 $	Councillor Allowances 17/18 $	Total Remuneration 17/18 $
Fenton Wilson	50,311	-	18,168	68,479
Alan Dick	62,889	-	2,327	65,216
Debbie Hewitt	50,311	-	7,262	57,573
Rex Graham	115,336	-	-	115,336
Peter Beaven	62,889	-	2,589	65,478
Rick Barker	62,889	-	2,291	65,180
Tom Belford	62,889	-	3,073	65,962
Neil Kirton	62,889	-	1,416	64,305
Paul Bailey	50,311	-	1,597	51,908
	580,718	**-**	**38,724**	**619,441**

28b) Remuneration of Chief Executive

2018/19		Salary 18/19 $	Severance Payments 18/19 $	Other Benefits 18/19 $	Total Remuneration 18/19 $
James Palmer - CE HBRC	(01/07/18 - 30/06/19)	285,000		28,593	313,593
		285,000	**-**	**28,593**	**313,593**

2017/18		Salary 17/18 $	Severance Payments 17/18 $	Other Benefits 17/18 $	Total Remuneration 17/18 $
James Palmer - CE HBRC	(01/07/17 - 30/06/18)	285,000		26,620	311,620
		285,000	**-**	**26,620**	**311,620**

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28(c) Severance Payments

There were six severance payments totalling $375,735 made during the year that were outside contractual obligations. (2017/18; $nil)

28(d) Council Employees

Total Annual Remuneration by band for Employees as at 30 June	2019
< $60,000	78
$60,000 - $79,999	72
$80,000 - $99,999	50
$100,000 - $119,999	21
$120,000 - $139,999	16
$140,000 - $179,999 (combined band)	4
$180,000 - $309,999 (combined band)	6
Total Employees (headcount)	**247**

Total Annual Remuneration by band for Employees as at 30 June	2018
< $60,000	61
$60,000 - $79,999	62
$80,000 - $99,999	45
$100,000 - $119,999	19
$120,000 - $139,999	11
$140,000 - $179,999 (combined band)	5
$180,000 - $309,999 (combined band)	4
Total Employees (headcount)	**207**

Total remuneration includes non-financial benefits provided to employees.

At balance date, the Council employed 212 (2018; 176) full-time employees, with the balance of staff representing 25.8 (2018; 19.6) equivalent employees. A full-time employee is determined on the basis of a 40-hour working week.

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28(e) Regional Planning Committee

2018/19

Committee Members	Meeting Fees 18/19 $	Travel Allowances 18/19 $	Total Remuneration 18/19 $
T. Waaka (Chair) - *Ngāti Pāhauwera Development & Tiaki Trust*	24,000	23	24,023
J. Maihi-Carroll - *Mana Ahuriri Trust*	12,000	735	12,735
N. Kirikiri - *Te Toi Kura O Waikaremoana*	12,000	1,477	13,477
T. Hopmans (Deputy Co Chair) - *Maungaharuru Tangitū Trust*	18,000	-	18,000
M. Brown - *Ngāti Hineuru Iwi Inc*	12,000	750	12,750
M. Northcroft - *Ngāti Tūwharetoa Hapū*	12,000	431	12,431
P. Paku - *Heretaunga Tamatea Settlement Trust*	12,000	323	12,323
A. Tapine - *Tātau Tātau o Te Wairoa Trust*	12,000	1,752	13,752
J. Nelson-Smith - *Heretaunga Tamatea Settlement Trust*	12,000	1,416	13,416
	126,000	6,907	132,907

28(f) Maori Committee

2018/19

Committee Members	Meetings Attended 18/19 #	Meeting Fees 18/19 $	Travel Allowances 18/19 $	Total Remuneration 18/19 $
H. Hilton - *Kaumatua (Hastings)*	6	2,400	468	2,868
M. Apatu - *Heretaunga Taiwhenua (Hastings)*	2	800	57	857
B. Blake - *Kaumatua (Wairoa)*	5	2,000	1,201	3,201
M. Paku - *Heretaunga Executive (Hastings)*	5	2,000	248	2,248
A. Manuel - *Wairoa Taiwhenua*	2	800	345	1,145
B. Gregory - *Tamatea Taiwhenua (Central Hawke's Bay)*	6	2,400	556	2,956
P. Eden - *Te Taiwhenua o Te Whanganui-a-Orotū (Napier)*	4	1,600	217	1,817
A. Robin - *Te Taiwhenua o Te Whanganui-a-Orotū (Napier)*	5	2,000	204	2,204
A. Te Tomo - *Te Taiwhenua o Te Whanganui-a-Orotū (Napier)*	3	1,200	38	1,238
P. Sciascia - *Te Taiwhenua o Tamatea (Central Hawke's Bay)*	3	1,200	384	1,584
M. McIlroy - *Kahungunu Executive (Wairoa)*	6	2,400	882	3,282
J. Brown - *Proxy (Heretaunga Taiwhenua)*	1	400	31	431
K. Kawana - *Proxy (Wairoa Taiwhenua)*	5	2,000	566	2,566
M. Hape - Proxy	1	400	-	400
	54	21,600	5,195	26,795
Committee Chairperson*				
M. Mohi - *Kaumatua (Central Hawke's Bay)*		61,838	-	61,838

*This is a salaried role and includes attending all Maori committee meetings, Hearing committee meetings, Regional Planning committee meetings and Regional Council meetings, meeting preparation and community engagement.

28(g) Finance, Audit and Risk Sub-Committee

2018/19

Independent Members	Meetings Attended 18/19 #	Meeting Fees 18/19 $	Travel Allowances 18/19 $	Total Remuneration 18/19 $
R. Dinwoodie	2	2,400	-	2,400

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Note 29: Major Budget Variances (Parent)

29 (i) Comprehensive Income Statement
Overall operating Revenue was in line with budget. A shortfall in revenue from activities is the result of a lower than planned recovery of compliance time as resource was allocated to non-recoverable activities. Fair value gains on investment include returns on managed funds placed into diversified investment portfolio. Gains were not divested given it was not required for cashflow, therefore the shortfall in other revenue is offset by gains on investments.

Expenditure exceeded budget for activities and personnel costs, largely as a result of a delay in capital projects, internal time was focused on alternate work-streams and subsequently the cost was allocated internally as opposed to capital projects.

The closing financial position for the year is an operating surplus of $2.6m compared to a planned surplus of $5.8m. The total comprehensive revenue and expense position is $68.6m which exceeds the planned $8.2m surplus. This significant increase is due to unrealised revaluation gains across all asset classes most specifically a $58m increase in the valuation of HBRIC (reflecting the value of ownership of Napier Port).

29 (ii) Operating Surplus / (Deficit) & Statement of Changes in Equity
An increase in equity of $68.6m is due to revaluation gains across all asset classes most specifically a $58m increase in the valuation of HBRIC (reflecting the value of ownership of Napier Port).

29 (iii) Cash flow statement
An increase in equity of $68.6m is due to revaluation gains across all asset classes most specifically a $58m increase in the valuation of HBRIC (reflecting the value of ownership of Napier Port).

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Note 30: 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 fair value through other comprehensive revenue and expense 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.

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.

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.

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.

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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.

Maximum Exposure to Credit Risk	Regional Council			Group	
	Actual 18/19 $000	Actual 17/18 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Cash and cash equivalents	28,436	27,309	-	32,227	27,574
Bank deposits with terms greater than 91 days	3,000	55,868	-	3,000	55,868
Government stock	1,438	1,370	-	1,438	1,370
Funds under Management	41,910	-	-	41,910	-
Community loans	8,533	8,478	-	8,533	8,478
Trade & other receivables	16,607	9,969	(59)	27,395	23,561
Derivative financial instruments	-	-	-	-	-
	99,923	102,995	(59)	114,503	116,852

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).

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Note 30(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 2019						
Creditors and other payables	9,480	9,480	9,480	-	-	-
Bank borrowings	21,585	24,991	3,900	881	9,089	11,121
Bank overdraft	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	-	-
ACC liability	12,408	14,086	777	1,526	2,071	9,711
Finance lease	-	-	-	-	-	-
	43,472	48,556	14,157	2,407	11,160	20,832
Council at 30 June 2018						
Creditors and other payables	9,074	9,074	9,074	-	-	-
Bank borrowings	23,025	27,134	3,900	1,035	12,937	9,262
Bank overdraft	-	-	-	-	-	-
Interest rate swaps	13	13	13	-	-	-
ACC liability	14,831	14,831	745	777	2,267	11,041
Finance lease	-	-	-	-	-	-
	46,943	51,052	13,732	1,812	15,204	20,303

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Group at 30 June 2019							
Creditors and other payables	18,998	18,998		18,998	-	-	-
Bank borrowings	102,414	108,828		47,628	2,008	48,071	11,121
Bank overdraft	129	-		-	-	-	-
ACC liability	11,921	14,086	-	777	1,526	2,071	9,711
Interest rate swaps	6,020	6,020		1,889	1,683	2,448	-
Forward exchange contracts	-	-		-	-	-	-
Finance lease	515	-		-	-	-	-
	139,996	147,931		69,292	5,217	52,590	20,832
Group at 30 June 2018							
Creditors and other payables	15,856	15,856		15,856	-	-	-
Bank borrowings	115,311	123,932	-	12,172	45,136	57,362	9,262
Bank overdraft	-	-		-	-	-	-
ACC liability	14,831	14,831	-	745	777	2,267	11,041
Interest rate swaps	5,212	5,212	-	489	1,064	1,649	2,010
Forward exchange contracts	-	-	-	-	-	-	-
Finance lease	-	-		-	-	-	-
	151,210	159,831		29,262	46,977	61,278	22,313

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Note 30(b): Financial Risk Management

Council

	2019 $000				2018 $000			
	-0.5%		+0.5%		-0.5%		+0.5%	
	Surplus	Other Equity	Surplus	Other Equity	Surplus	Other Equity	Surplus	Other Equity
Interest Rate Risk								
Financial assets								
Cash and cash equilvalents	(142)	-	142	-	(137)	-	137	-
Other financial assets:								
Term deposits	(15)	-	15	-	(279)	-	279	-
Financial liabilities								
Bank overdraft	-	-	-	-	-	-	-	-
Loans	107	-	(107)	-	115	-	(115)	-
Derivatives	-	-	-	-	0	-	(0)	-
Total sensitivity	**(50)**	**-**	**50**	**-**	**(301)**	**-**	**301**	**-**
Foreign Exchange Risk								
Financial assets								
Forward exchange contracts	-	-	-	-	-	-	-	-
Total sensitivity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Equity Price Risk								
Financial assets								
Publicly listed shares	(4)	-	4	-	(4)	-	4	-
Government Bonds	(7)	-	7	-	(6)	-	6	-
Total sensitivity	**(11)**	**-**	**11**	**-**	**(10)**	**-**	**10**	**-**

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Group

	2019 $000				2018 $000			
	-0.5%		+0.5%		-0.5%		+0.5%	
	Surplus	Other Equity	Surplus	Other Equity	Surplus	Other Equity	Surplus	Other Equity
Interest Rate Risk								
Financial assets								
Cash and cash equilvalents	(161)	-	161	-	(138)	-	138	-
Other financial assets:								
Term deposits	(15)	-	15	-	(279)	-	279	-
Financial liabilities								
Bank overdraft	1	-	(1)	-	-	-	-	-
Loans	511	-	(511)	-	577	-	(576)	-
Derivatives	30	-	(30)	-	26	-	(26)	-
Total sensitivity	**366**	**-**	**(366)**	**-**	**184**	**-**	**(185)**	**-**
Foreign Exchange Risk								
Financial assets								
Forward exchange contracts	-	-	-	-	-	-	-	-
Total sensitivity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Equity Price Risk								
Financial assets								
Publicly listed shares	(4)	-	4	-	(4)	-	4	-
Government Bonds	(7)	-	7	-	(6)	-	6	-
Total sensitivity	**(11)**	**-**	**11**	**-**	**(10)**	**-**	**10**	**-**

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Explanation of interest rate risk sensitivity

The interest rate sensitivity has been calculated based on -5% / +5% (2018 -5% / +5%) movement in interest rates.

Explanation of foreign exchange risk sensitivity

The foreign exchange risk sensitivity has been calculated based on -5% / +5% (2018 -5% / +5%) movement in forward foreign exchange contracts.

Explanation of equity price risk sensitivity

The sensitivity for listed shares and government bonds has been calculated based on -5% / +5% (2018 -5% / +5%) movement in the share price at year-end.

Note 30(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 meet 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
(2018/2028 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.

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Note 31: Financial Instrument Categories

	Note	Regional Council		Group	
		Actual 18/19 $000	Actual 17/18 $000	Actual 18/19 $000	Actual 17/18 $000
Financial Assets					
Loans and receivables					
Cash and cash equivalents		28,436	27,309	32,227	27,574
Trade & other receivables		10,038	9,969	27,326	23,561
Managed Funds		41,910			
Advances to Council-controlled organisations		6,500	-	-	-
Other financial assets					
Term Deposits		3,000	55,868	3,000	55,868
Community loans		8,533	8,478	8,533	8,478
Total loans and receivables		**98,416**	**101,624**	**71,086**	**115,481**
Held-to-maturity					
Other financial assets					
Government Bonds		1,438	1,370	1,438	1,370
Total held-to-maturity		**1,438**	**1,370**	**1,438**	**1,370**
Fair value through other comprehensive revenue and expense					
Other financial assets					
Publicly listed shares		801	795	801	795
Civic Assurance shares		18	18	18	18
Advances to Napier / Gisborne Rail		236	218	236	218
Shares in Hawke's Bay Regional Investment Company		340,396	283,500	-	-
Total fair value through other comprehensive revenue and expense		**341,451**	**284,531**	**1,055**	**1,031**
Financial Liabilities					
Fair value through surplus or deficit - held for trading					
Derivative financial instrument liabilities		-	13	6,020	5,212
Financial Liabilities at amortised cost					
Trade & other payables		9,480	9,074	17,600	15,033
Bank overdraft		-	-	129	-
Borrowings		21,585	23,025	102,285	115,311
ACC Leasehold Liability		12,408	14,831	12,408	14,831
Total financial Liabilities at amortised cost		**43,472**	**46,943**	**138,442**	**150,387**

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Note 31a: Fair Value Hierarchy Disclosures

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – Financial instruments with quoted prices for identical instruments in active markets.

- Valuation technique using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

- Valuation techniques with significant non-observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position:

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	Total $000	Quoted Market Price (level 1) $000	Observable Inputs (level 2) $000	Significant Non-observable Inputs (level3) $000
30 June 2019 - Council				
Financial assets				
Government bonds	1,438	1,438		
Publicly listed shares	801	801		
Shares in Hawke's Bay Regional Investment Company	340,396			340,396
Financial liabilities				
Derivatives	-		-	
30 June 2019 - Group				
Financial assets				
Government bonds	1,438	1,438		
Publicly listed shares	801	801		
Financial liabilities				
Derivatives	6,020		6,020	
30 June 2018 - Council				
Financial assets				
Government bonds	1,370	1,370		
Publicly listed shares	795	795		
Shares in Hawke's Bay Regional Investment Company	283,500			283,500
Financial liabilities				
Derivatives	13		13	
30 June 2018 - Group				
Financial assets				
Government bonds	1,370	1,370		
Publicly listed shares	795	795		
Financial liabilities				
Derivatives	5,212		5,212	

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There were no transfers between the different levels of the fair value hierarchy.

Valuation techniques with significant non-observable inputs (level 3)

The table below provides a reconciliation from the opening balance to the closing balance for the level 3 fair value measurements:

	2019 $000	2018 $000
Balance at 1 July	256,028	256,028
Gain and losses recognised in the surplus or deficit		
Gain and losses recognised in other comprehensive revenue and expenditure	6,357	-
Purchases		
Sales		
Transfers		
Balance at 30 June	**262,385**	**256,028**

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Note 32: Events after Balance Sheet Date (Parent & Group)

The HBRIC parent company sold 45% of its shareholding in Napier Port via an Initial Public Offering (IPO) listing on the New Zealand Stock Exchange (NZX), with listing on 20 August 2019. Additionally in excess of $100m of funds have been released to HBRIC following the dilution of HBRIC's share in Napier Port from 100% to 55%.

The HBRIC parent company repaid the $6.5m loan to its shareholder on 13 September 2019.

Audit Opinion Commentary

Council's Auditors (Audit New Zealand) and the Office of the Auditor General have advised that Council is expected to receive a qualified audit opinion due to failure to comply with Generally Accepted Accounting Practice (GAAP) – NZ IFRS 10 for HBRIC and PBE IPSAS 6 for HBRC. This is primarily driven by unusual and extenuating circumstances outside of the Council's control, and related to a significant, post balance date transaction at Port of Napier Limited resulting in increased compliance with disclosures related to an entity listed on the New Zealand stock exchange (NZX).

Specifically, the Council is reliant on Port of Napier Limited's ability to issue its 9-month financial statements (through to 30 June 2019) in order to resolve deficiencies outlined by the Council's auditors and the Office of the Auditor General. As a result, Council group financial statements are based on Port of Napier Limited's full year financial statements for year ended 31 March 2019. Port of Napier Limited is unable to issue 9-month financial statements (through to 30 June 2019) as doing so would provoke a necessity to publicly disclose financials for the same period to all shareholders and investors. This requirement for disclosure occurs because Council is legally obliged to adopt and publish its consolidated financial statements, including Port of Napier Limited financial statements (through to 30 June 2019) by 31 October 2019. After substantial discussion, consideration and external legal advice, the Council's best option is to revert to Port of Napier Limited's financial statements for year ended 31 March 2019 and accept the qualified audit opinion due to the extenuating circumstances outside of Council's control and due to Port of Napier Limited's inability to issue 9-month financial statements driven by its need to comply with disclosure and legal requirements for a publicly traded organisation.

Notwithstanding the above, Council believes that its financial statements comply with Generally Accepted Accounting Practice (GAAP) and all applicable financial reporting standards. External legal and specialist advice supports this assertion, in that the Council's group consolidated financials (including HBRIC) are compliant with the Generally Accepted Accounting Practice (GAAP) and applicable IFRS financial reporting standards which allow for a variation of 3 months in reporting balance date, as per in prior years to FY 2017-18. Council acknowledges that its auditors and the Office of Auditor General, subsequent to a healthy and robust discussion, have arrived at fundamentally differing conclusions. Council's position is supported by a thorough internal analysis further bolstered by detailed and sound technical advice provided to the Council from functional experts.

Council acknowledges that this outcome is neither ideal nor preferred. While Council believes that it is compliant with all applicable financial reporting standards, it is committed to resolving this difference in opinion for upcoming years. Council's preferred outcome is for Port of Napier Limited to amend its balance date to 30 June. As Council continues to drive towards this preferred outcome, Council has engaged in meaningful discussions with Port of Napier Limited to arrive at an interim solution whereby Port of Napier Limited may consider publishing its 9 month financial performance in year 2 of its product disclosure statement financials.

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Financial Impact Statements

The following information is presented for compliance with Local Government (Financial Reporting) Regulations 2011. In accordance with the regulations, the information presented is incomplete (in particular, the information presented does not include depreciation and internal transactions such as overheads) and it is not prepared in compliance with generally accepted accounting practice. It should not be relied upon for any other purpose than compliance with the Local Government (Financial Reporting) Regulations 2011.

Note: The comparative information has been restated to reflect changes in the activity grouping reported. Refer to page 23 for more detail.

Council Funding Impact Statement

	Annual Plan 2017/18 ($'000)	Annual Report 2017/18 ($'000)	LTP 2018/19 ($'000)	Annual Report 2018/19 ($'000)
Sources of operating funding				
General rates & uniform annual general charges, rates penalties	4,300	4,528	6,952	7,357
Targeted rates	14,824	14,047	15,877	15,878
Subsidies & grants for operating purposes	3,630	4,972	3,368	3,989
Fees & charges	7,000	6,548	9,198	8,416
Interest & dividends from investments	12,620	12,721	13,297	12,318
Local authoritites fuel tax, fines, infringement fees & other receipts	2,804	2,737	2,732	2,304
Total operating funding	45,178	46,453	51,424	50,263
Applications of operating funding				
Payments to staff & suppliers	40,371	41,317	44,332	47,250
Finance costs	2,648	2,803	2,447	2,489
Other operating funding applications	-	-	-	
Total applications of operating funding	43,019	44,120	46,779	49,739
Surplus / (deficit) of operating funding	2,159	2,333	4,645	524
Sources of capital funding				
Subsidies & grants for capital purposes	1,538	411	1,882	-
Development & financial contributions	-	-	-	-
Increase / (decrease) in debt	7,368	160	2,758	(1,440)
Gross proceeds from sale of assets	168	5,954	1,006	3,860
Lump sum contributions				
Other dedicated capital funding	-	-	-	-
Total sources of capital funding	9,074	6,525	5,646	2,420
Applications of capital funding				
Capital expenditure:				
- to meet additional demand	3,016	-	435	226
- to improve the level of service	1,865	1,407	2,090	774
- to replace existing assets	3,506	3,423	6,536	5,114
	8,387	4,830	9,061	6,114
Increase / (decrease) in reserves	(64,932)	(1,008)	(4,970)	(5,620)
Increase / (decrease) of investments	67,778	5,036	6,200	2,449
Total application of capital funding	11,233	8,858	10,291	2,944
Surplus / (deficit) of capital funding	(2,159)	(2,333)	(4,645)	(524)
Funding balance	-	-	-	0

Reconciliation from Funding Impact Statement of Comprehensive Revenue and Expenditure

Operating Surplus per Income Statement	2,159	2,593	4,645	3,228
Depreciation	(2,739)	2,904	2,925	3,081
Reduction in ACC Leasehold Liability	1,035	965	917	475
Fair Value Gains/Losses	1,737	(3,697)	(3,195)	(6,197)
Capital Grants	-	(411)	-	-
Gain / Loss on sale	-	9	554	(41)
Other Revenue	-	(30)	-	(23)
FIS Surplus / (deficit) of Operating Funding (above)	2,192	2,333	5,846	524

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Funding Impact Statement: Governance & Partnerships

	LTP 2017/18 ($'000)	LTP 2018/19 ($'000)	Annual Report 2018/19 ($'000)
Sources of operating funding			
General rates & uniform annual general charges	1,363	2,603	2,668
Targeted rates	-	-	-
Subsidies & grants for operating purposes	15	15	25
Fees & charges	285	122	61
Internal charges & overheads recovered	966	826	2,069
Fines, infringement fees & other receipts	-	-	-
Total operating funding	2,629	3,566	4,823
Applications of operating funding			
Payments to staff & suppliers	2,025	2,976	3,194
Finance costs	292	115	107
Internal charges & overheads applied	313	475	447
Other operating funding applications	-	-	-
Total applications of operating funding	2,630	3,566	3,748
Surplus / (deficit) of operating funding	(1)	-	1,075
Sources of capital funding			
Subsidies & grants for capital purposes	284	-	-
Development & financial contributions	-	-	-
Increase / (decrease) in debt	1,227	(305)	(290)
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Total sources of capital funding	1,511	(305)	(290)
Applications of capital funding			
Capital expenditure:			
- to meet additional demand	1,890	-	-
- to improve the level of service	-	-	-
- to replace existing assets	-	-	-
	1,890	-	-
Increase / (decrease) in reserves	(380)	(305)	785
Increase / (decrease) of investments	-	-	-
Total application of capital funding	1,510	(305)	785
Surplus / (deficit) of capital funding	1	-	(1,075)
Funding balance	-	-	-

Funding Impact Statement: Strategic Planning

	LTP 2017/18 ($'000)	LTP 2018/19 ($'000)	Annual Report 2018/19 ($'000)
Sources of operating funding			
General rates & uniform annual general charges	-	2,733	2,812
Targeted rates	2,396	1,850	1,850
Subsidies & grants for operating purposes	125	274	274
Fees & charges	55	-	-
Internal charges & overheads recovered	2,897	89	1,518
Fines, infringement fees & other receipts	-	-	-
Total operating funding	5,473	4,946	6,454
Applications of operating funding			
Payments to staff & suppliers	4,800	4,296	3,948
Finance costs	8	5	7
Internal charges & overheads applied	665	645	693
Other operating funding applications	-	-	-
Total applications of operating funding	5,473	4,946	4,648
Surplus / (deficit) of operating funding	-	-	1,807
Sources of capital funding			
Subsidies & grants for capital purposes	-	-	-
Development & financial contributions	-	-	-
Increase / (decrease) in debt	-	-	(20)
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Total sources of capital funding	-	-	(20)
Applications of capital funding			
Capital expenditure:			
- to meet additional demand	-	-	-
- to improve the level of service	-	-	-
- to replace existing assets	-	-	-
	-	-	-
Increase / (decrease) in reserves	-	-	1,786
Increase / (decrease) of investments	-	-	-
Total application of capital funding	-	-	1,786
Surplus / (deficit) of capital funding	-	-	(1,807)
Funding balance	-	-	-

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Funding Impact Statement: Integrated Catchment Management

	LTP 2017/18 ($'000)	LTP 2018/19 ($'000)	Annual Report 2018/19 ($'000)
Sources of operating funding			
Targeted rates	3,065	3,197	3,365
Subsidies & grants for operating purposes	25	82	599
Fees & charges	3,924	4,182	3,446
Internal charges & overheads recovered	8,292	9,849	6,449
Fines, infringement fees & other receipts	190	27	63
Total operating funding	15,496	17,337	13,922
Applications of operating funding			
Payments to staff & suppliers	12,503	13,660	16,290
Finance costs	983	940	904
Internal charges & overheads applied	2,009	2,738	3,228
Other operating funding applications	-	-	-
Total applications of operating funding	15,495	17,338	20,422
Surplus / (deficit) of operating funding	1	(1)	(6,501)
Sources of capital funding			
Subsidies & grants for capital purposes	1,506	1,882	-
Development & financial contributions	-	-	-
Increase / (decrease) in debt	823	2,100	(1,125)
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Total sources of capital funding	2,329	3,982	(1,125)
Applications of capital funding			
Capital expenditure:			
- to meet additional demand	2,402	160	226
- to improve the level of service	-		
- to replace existing assets	-	-	-
	2,402	160	226
Increase / (decrease) in reserves	(72)	(979)	(7,923)
Increase / (decrease) of investments	-	4,800	71
Total application of capital funding	2,330	3,981	(7,626)
Surplus / (deficit) of capital funding	(1)	1	6,501
Funding balance	-	-	(0)

Funding Impact Statement: Asset Management

	LTP 2017/18 ($'000)	LTP 2018/19 ($'000)	Annual Report 2018/19 ($'000)
Sources of operating funding			
Targeted rates	6,883	7,081	6,912
Subsidies & grants for operating purposes		-	-
Fees & charges	122	2,033	2,974
Internal charges & overheads recovered	(71)	2,277	1,225
Fines, infringement fees & other receipts	145	267	177
Total operating funding	7,079	11,658	11,288
Applications of operating funding			
Payments to staff & suppliers	4,913	6,968	10,427
Finance costs	42	123	24
Internal charges & overheads applied	1,358	2,793	758
Other operating funding applications	-	-	-
Total applications of operating funding	6,313	9,884	11,209
Surplus / (deficit) of operating funding	766	1,774	78
Sources of capital funding			
Subsidies & grants for capital purposes	-	-	-
Development & financial contributions	-	-	-
Increase / (decrease) in debt	(262)	(124)	(122)
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Total sources of capital funding	(262)	(124)	(122)
Applications of capital funding			
Capital expenditure:			
- to meet additional demand	-	-	-
- to improve the level of service	1,841	2,090	774
- to replace existing assets	685	1,217	281
	2,526	3,307	1,055
Increase / (decrease) in reserves	(2,022)	(1,657)	(1,099)
Increase / (decrease) of investments	-	-	-
Total application of capital funding	504	1,650	(44)
Surplus / (deficit) of capital funding	(766)	(1,774)	(78)
Funding balance	-	-	0

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Funding Impact Statement: Consents & Compliance	LTP 2017/18 ($'000)	LTP 2018/19 ($'000)	Annual Report 2018/19 ($'000)
Sources of operating funding			
General rates & uniform annual general charges	1,875	1,294	1,370
Targeted rates	-	-	-
Subsidies & grants for operating purposes	-	67	-
Fees & charges	1,421	2,579	1,904
Internal charges & overheads recovered	-	385	1,285
Fines, infringement fees & other receipts	10	10	-
Total operating funding	3,306	4,335	4,559
Applications of operating funding			
Payments to staff & suppliers	2,662	3,405	3,131
Finance costs	-	-	
Internal charges & overheads applied	644	930	926
Other operating funding applications	-	-	-
Total applications of operating funding	3,306	4,335	4,057
Surplus / (deficit) of operating funding	-	-	502
Sources of capital funding			
Targeted rates	-	-	-
Subsidies & grants for capital purposes	-	-	-
Development & financial contributions	-	-	-
Increase / (decrease) in debt	-	-	-
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Total sources of capital funding	-	-	-
Applications of capital funding			
Capital expenditure:			
- to meet additional demand	-	-	-
- to improve the level of service	-	-	-
- to replace existing assets	-	-	-
	-	-	-
Increase / (decrease) in reserves	-		502
Increase / (decrease) of investments	-	-	-
Total application of capital funding	-	-	502
Surplus / (deficit) of capital funding	-	-	(502)
Funding balance	-	-	(0)

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Funding Impact Statement: Emergency Management	LTP 2017/18 ($'000)	LTP 2018/19 ($'000)	Annual Report 2018/19 ($'000)
Sources of operating funding			
General rates & uniform annual general charges	-	149	144
Targeted rates	1066	2,130	2,130
Subsidies & grants for operating purposes	175		-
Fees & charges	123	119	23
Internal charges & overheads recovered	648	(25)	53
Fines, infringement fees & other receipts		(1)	3
Total operating funding	2,012	2,372	2,353
Applications of operating funding			
Payments to staff & suppliers	1,582	1,840	1,182
Finance costs	22	-	-
Internal charges & overheads applied	408	532	734
Other operating funding applications	-	-	-
Total applications of operating funding	2,012	2,372	1,915
Surplus / (deficit) of operating funding	-	-	437
Sources of capital funding			
Targeted rates	-	-	-
Subsidies & grants for capital purposes	-	-	-
Development & financial contributions	-	-	-
Increase / (decrease) in debt	-	-	-
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Total sources of capital funding	-	-	-
Applications of capital funding			
Capital expenditure:			
- to meet additional demand	-	-	-
- to improve the level of service	-	-	-
- to replace existing assets	-	-	-
	-	-	-
Increase / (decrease) in reserves	-		438
Increase / (decrease) of investments	-	-	-
Total application of capital funding	-	-	438
Surplus / (deficit) of capital funding	-	-	(438)
Funding balance	-	-	(0)

Funding Impact Statement:Transport	LTP 2017/18 ($'000)	LTP 2018/19 ($'000)	Annual Report 2018/19 ($'000)
Sources of operating funding			
General rates & uniform annual general charges	-	173	144
Targeted rates	1,702	1,620	1,620
Subsidies & grants for operating purposes	2,810	2,929	3,056
Fees & charges		153	8
Internal charges & overheads recovered	48	(34)	121
Fines, infringement fees & other receipts	(3)	(2)	(1)
Total operating funding	4,557	4,839	4,949
Applications of operating funding			
Payments to staff & suppliers	4,386	4,608	4,809
Finance costs	25	5	1
Internal charges & overheads applied	146	226	248
Other operating funding applications	-	-	-
Total applications of operating funding	4,557	4,839	5,058
Surplus / (deficit) of operating funding	-	-	(109)
Sources of capital funding			
Targeted rates	-	-	-
Subsidies & grants for capital purposes	-	-	-
Development & financial contributions	-	-	-
Increase / (decrease) in debt	-	-	-
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Total sources of capital funding	-	-	-
Applications of capital funding			
Capital expenditure:			
- to meet additional demand	-	-	-
- to improve the level of service	-	-	-
- to replace existing assets	-	-	-
	-	-	-
Increase / (decrease) in reserves	-		(109)
Increase / (decrease) of investments	-	-	-
Total application of capital funding	-	-	(109)
Surplus / (deficit) of capital funding	-	-	109
Funding balance	-	-	-

Item 4

Attachment 1

Part 3- Financials | Pūrongo Pūtea

Report on Council Controlled Organisations

Introduction

Clause 28 of Schedule 10 of the Local Government Act 2002 (Act) requires the Council to include in its annual report certain information on each Council Controlled Organisation (CCO) in which the Council is a shareholder or has the power to appoint directors, or members of the governing body of the CCO.

The Hawke's Bay Regional Council has two CCOs;

- Hawke's Bay Regional Investment Company Limited (HBRIC Ltd); and
- Napier Port Holdings Limited (NPHL)

NPHL was incorporated in June 2019 to provide an efficient and effective structure to facilitate a minority share issue of Napier Port. NPHL sat as a shell company until shares were listed on the NZX on 20 August 2019. As such, no assessment of performance against targets has been reported this year. More in-depth reporting will be provided in the next financial year.

HBRIC Ltd

Ownership and Control Policies

The Council is required to report on the implementation or attainment of any significant policies and objectives in regard to ownership and control of CCOs during the year.

The Regional Council's objectives for HBRIC Ltd are to:

- Enhance the Regional Council's capability to actively manage transferred strategic assets
- Improve net financial and economic returns from these assets
- Provide flexibility of operation not otherwise available directly to the Regional Council which would increase returns to the Regional Council from its ongoing financial management.

During the year there have been no changes to the ownership of HBRIC Ltd, or the company's governance arrangements. Rex Graham (Chair of Hawkes Bay Regional Council) was appointed as Chair in April 2018 and remained as Chair for the remainder of the financial year alongside sitting Directors Peter Beaven (Councillor) and Dan Druzianic (Independent).

Nature and Scope of Activities

The Council is required to compare the intended versus actual nature and scope of the activities provided in the year by CCOs (as set out in the 2018-28 Long Term Plan). The nature and scope of activities as described in the 2018-28 Long Term Plan is noted in italics followed by commentary on actual performance in 2018-19.

- *Own and manage the investment assets and liabilities transferred to it by Council from time to time.*
  - As in previous years, HBRIC Ltd continued to manage the investment in the Port of Napier Limited (Napier Port) following the transfer of shares from the Council on 25 June 2012.
  - During the year, HBRIC Ltd applied for a binding ruling to assess the expenses arising from the Ruataniwha Water Storage Scheme (RWSS). In December 2018, the binding ruling was successful creating a tax asset of 28% of the deductable allowances ($5.7 million) which flowed through via a subvention payment from Napier Port.

- *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 Chair and CEO on a regular basis to discuss its operating activities and any investment opportunities that have the potential to increase shareholder value.

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- During the 2018-19 year, the Regional Council ran a Special Consultative Process on options for the future capital structure of Napier Port to enable the development of a new wharf estimated to $142 million.
- More than 3,500 submissions were received with 57% of submitters supporting the Regional Council's preferred option – a minority IPO.
- The objective for a change in ownership structure of Napier Port was to retain majority community ownership of the Port while securing the investment the Port requires to enable the development of a new wharf to ensure the continued economic prosperity of the Hawkes Bay region.
- At the end of the 2018 financial year as at 30 June 2018, Napier Port was valued at $291 million. Currently (12 September 2019), following the Initial Public Offer the HBRC's 55% ownership stake is valued at more than $330 million.
- The increased valuation of the asset is partially reflected through these financial statements at 30 June 2019.
-

- *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 the Council's Investment Policy detailed in the 2018-28 Long Term Plan.
  - On 27 March 2019, the Regional Council resolved to establish a new Council Controlled Organisation called Napier Port Holdings Limited which would be the entity to undertake the IPO. The Regional Council also resolved to introduce a range of additional protections ahead of a potential IPO. These protections included:
    - Ensuring the Regional Council's majority ownership position in Napier Port could not be diluted, such as through any subsequent share issues or equity raising, below 51% in the future
    - The right to determine the composition of the Napier Port Holdings and Napier Port Boards through a majority vote
    - Appointing two majority shareholder-appointed directors to the Napier Port Holdings and Napier Port Boards (later confirmed as Cr Rick Barker and Blair O'Keeffe)
    - Reducing the threshold at which Napier Port Holdings and Napier Port would need to seek shareholder approval for significant transactions
    - Inserting a restrictive covenant on the strategically important Port land at the main Ahuriri site, including limiting any potential future sale of the land without Regional Council consent and limiting the use of the Port site to Port purposes.
- *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 Chair 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.
  - The performance of Napier Port in the 2019-20 year will be reported to the Regional Council under the NZX continuous disclosure requirements.
  - In addition the two majority shareholder appointed Directors are able to share relevant information regarding the company's financial and social performance.
- *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 the Council which includes advising on strategic issues relating to its investments.

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- *Perform financial, custodial and other functions required by HBRC.*
  - HBRIC Ltd undertook all financial, custodial and other functions as instructed by the Council.
  - On 20 August 2019, the HBRC dissolved its ownership of Napier Port to 55% shareholding.
  - Napier Port Holdings Limited (NPHL) listed on the NZX under the ticker: NPH. Shares listed at $2.60, resulting in $234 million raised with $110 million funding Port expansion and the remaining proceeds minus costs received by the Regional Council and HBRIC Ltd for investment on behalf of ratepayers.
  - All material capital expenditure projects undertaken by HBRIC Ltd or via Napier Port were advised to the Council at the earliest opportunity during the current year.

Other Key Performance Targets

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

1. Growth in long-term shareholder value
2. Increased financial and strategic returns
3. Investments are secure and sustainable over the long term
4. Investments will assist achievement of the Council's regional strategic development objectives.

Specific financial performance targets and actual results for 2018-19 are in the table below:

Consolidated Performance Targets		
Performance Indicator	Target	Actual (2018-19)
Net debt to net debt plus Equity	<40%	29%
Interest cover (EBIT/Interest Paid)	>3x	6x
EBITDA/Total Assets	9%	12%
Return on Shareholders' Funds	5%	7%

Notes: EBIT = Earnings Before Interest and Tax

EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation

Net debt means gross borrowings from outside the "HBRIC Ltd "group", less loans made to parties outside the HBRIC Ltd "group"

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Statement of Compliance and Responsibility

Compliance

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

Responsibility

2. The Council and management of the Hawke's Bay Regional Council accept responsibility for the preparation of the annual Financial Statements and the judgements used in them.
3. The Council and management of the Hawke's Bay Regional Council accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
4. In the opinion of the Council and management of the Hawke's Bay Regional Council, the annual Financial Statements for the year ended 30 June 2019 fairly reflect the financial position and operations of the Hawke's Bay Regional Council.

Rex Graham	**James Palmer**	**Jessica Ellerm**
Chair	**Chief Executive**	**Group Manager, Corporate Services**
DD Month 2019	**DD Month 2019**	**DD Month 2019**

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Appendix 1 - Independent Auditor's Report

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Appendix 2 - Key activities for progressively implementing NPS-FM

Following amendments to the National Policy Statement for Freshwater Management in August 2017, the Hawke's Bay Regional Council adopted a third edition of its Progressive Implementation Plan NPS-FM on 31 October 2018. The updated implementation programme replaced the previous programme adopted by the Council in November 2015 and the original September 2012 edition.

Under NPS-FM Policy E1, states that "*(e) Where a regional council has adopted a programme of staged implementation, it is to publicly report in every year, on the extent to which the programme has been implemented.*" Below is a progress summary by catchment.

ID	Description	Status
1	**Tukituki River Catchment Plan Change (PC6).** During 2018-19, the Regional Planning Committee (RPC) were presented with a request from the Tukituki Taskforce to consider amending the date for the which the minimum flows would come into effect, to allow the community time to adapt to the new flows. In December 2018, the RPC directed staff to scope and initiate a preliminary plan change process to defer the 2018 minimum flow regime. Staff reported back to the RPC and after consideration of the facts the RPC agreed not to progress a plan change.	Operative 1 Oct 2015
2	**Greater Heretaunga / Ahuriri Catchment Area (aka 'TANK' catchments) Plan Change.** The draft TANK Plan was handed over from the TANK collaborative stakeholder group to the RPC in August 2018. A number of workshops were held to ensure the members of the RPC were familiar with the content of the plan and to understand the issues which the TANK collaborative stakeholder group had considered since 2012. The TANK Plan Change and the issues considered within it were also discussed at a number of meetings, gaining in-principle support. In December 2018, the RPC recommended that the Council approve the release of the draft plan for pre-notification consultation (in January 2019). The draft plan (version 8) was sent to affected iwi authorities, territorial authorities and the Minister for the Environment for comment (by 29 March 2019). Feedback was received Ngāti Kahungungu Iwi Incorporated, Mana Ahuriri, Heretaunga Tamatea Settlement Trust, Te Taiwhenua o Heretaunga, Hastings District Council, Napier City Council, Department of Conservation and Horticulture NZ.	Plan Change in preparation. To be publicly notified in late 2019.
3	**Outstanding Water Bodies Plan Change** Further engagement was undertaken with iwi authorities, territorial authorities and key stakeholders in September 2018 regarding the RPC selected list of 22 candidate water bodies (selected in April 2018). Feedback from some of the organisations highlighted a need to consider additional water bodies and to broaden stakeholder involvement. Additional candidate water bodies were suggested as a consequence of the engagement. A local expert panel was contracted to assess the Outstanding Water Bodies candidate list (including the additional water bodies) and provide a report to the Council on their conclusions. Further hui were also held during this time with iwi. In May 2019 the RPC recommended to the Council that the draft plan including a list of 43 water bodies be released for pre-notification consultation.	To be publicly notified by 31 August 2019.
4	**Plan Change 5 to RRMP** (integrated land and freshwater management) On 7 June 2019, the Environment Court issued its final decision on the last remaining points of an appeal by Hawke's Bay Fish and Game Council on	Environment Court issued final decision 7 June 2019.

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ID	Description	Status
	Change 5's wetland related provisions. That decision followed a two-day Court hearing in September 2017. With that decision issued there were no remaining part of any appeals unresolved.	Recommendation to RPC to approve Change 5 (July 2019)
5	**Plan Change for greater regulation of oil and gas exploration activities** On the 12 April 2018, the Labour-led government announced that there would be no further offshore oil and gas exploration permits granted. In response to this announcement the Regional Planning Committee at their meeting on the 12 September 2018 recommended to the Council to cease further work on the preparation of the Oil and Gas Plan Change, with a view to incorporating this work, as appropriate in future coming reviews of the Regional Resource Management Plan and the Regional Coastal Environment Plan.	Plan Change ceased, until further review of the RRMP and RCEP 2020-21.
6	**Mohaka River Catchment Plan Change** The Mohaka Plan Change preparation has recommenced in 2018-19. Initial hui have been held primarily with Ngāti Pāhauwera and other iwi within interest in the area. Preparation of a relationship agreement with Ngāti Pāhauwera is underway. It is envisaged that this will provide the foundation to then develop and co-design the plan change with Tāngata Whenua.	Under preparation. Not yet publicly notified.
7	**Rest of Region Plan Change** (i.e. covering all other catchments in the Hawke's Bay region that are not within the Tukituki, TANK or Mohaka catchment areas)	Not scheduled for 2018-19. To commence in 2020-21.
8	**Ngaruroro Water Conservation Order application** Stage 2 hearings for the WCO were held February - March 2019. The Hearings focused on the lower Ngaruroro River and Clive River whereas Stage 1 had earlier focused on the upper catchment (above Whanawhana). The co-applicants filed a written closing statement on the 29 March 2019. The Tribunal has yet to announce any decisions.	Ongoing

NOTE 1: In terms of involvement of Tāngata Whenua in (i.e. Objective D1 and Policy D1 of the NPS-FM), further commentary on this is outlined in "Part 1 - Introduction" of this Annual Report.

NOTE 2: This appendix does not outline the wide range of other activities (e.g. environmental monitoring, science information, land management services, open space activities etc.) that underpin, inform and implement changes to the RRMP. Refer to the separate activity reports elsewhere in this Annual Report.