

Our Purpose

Hawke's Bay Regional Council has a long term focus and exists due to our role in:

- Natural resource management and governance;
- Natural hazard assessment and mitigation;
- Regional strategic planning (including provision of statutory plans such as the regional policy statement); and
- The provision and assessment of regional scale infrastructure, notably flood risk assets, regional logistics facilities such as Napier Port and water storage.

Our Vision

A region with a vibrant community, a prosperous economy, a clean and healthy environment, now and for future generations.

Our Values

Excellence – we aim high and take pride in providing an exceptional service

Forward thinking – We anticipate and prepare for the future

Innovation – We are open to change and seek new ways of doing things

Integrity – We demonstrate openness, honesty and respect in our relationships

Partnerships – We build strong partnerships to achieve common goals

Our Goals

We have adopted three goals for the region – **a vibrant community, a prosperous economy, and a clean and healthy environment.**

These goals are a bridge between our vision, our community outcomes and our group of activity work programmes. All of our work should meet the definition of at least one of our goals; if not, we should not be doing the work. However much of our work meets all three goals.

“A clean and healthy environment” is the most strategic of the goals and underpins the success of the others. Without a good environment our community will not enjoy living in the region and prosperity may be hard to achieve.

Guide to the Annual Report

The Annual Report is divided into three sections to make it easy to find the information you want.

- **Performance Overview**

This includes an Introduction from the Chairman and the Chief Executive along with an update on key issues.

- **Accountability Information**

This section includes:

- The Statement of Service Performance for the year and an overview of each Group of Activity
- How each Group of Activity links to the community outcomes
- A report which measures the performance of each sub-activity
- Financial details for the Regional Council for the year to 30 June 2014 and for the Port of Napier Limited for the 12 months to 31 March 2014, which together make up the Group accounts.

- **General Information**

This section includes general information about Council's resources, assets and activities, the Councillors, the organisational structure, and an outline of information available for public use.

Chairman and Chief Executive Commentary

Kia ora. This Report summarises the work of Hawke's Bay Regional Council (HBRC) during year two of HBRC's Long Term Plan 2012 – 2022.

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

In the twelve months to year end 30 June 2014, HBRC has made good progress on our major projects, with continuing focus on the delivery of our day-to-day operational activities.

Our Direction

Our Long Term Plan is based on the overall direction set down in HBRC's 2011 Strategic Plan. The Hawke's Bay Strategic Plan identified HBRC's business as:

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



Tukituki River.

Reporting against 'The Right Debate' key issues

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

Natural resource management and governance

Tukituki Catchment Proposal (TCP) – this is both Plan Change 6 and resource consents for a \$260 million water storage scheme on the Ruataniwha Plains. TCP was called-in by the Minister for the Environment and the Minister of Conservation and was heard by an independent Board of Inquiry. The Board issued its final decisions on 26 June 2014. Plan Change 6 introduces new requirements for water and land use and requires significant council input and focus, irrespective of whether or not the water storage scheme goes ahead.

Hill Country Afforestation – in June 2012 as part of the LTP, HBRC approved a provision of \$47 million for investment in hill country afforestation. We based this on partnerships to promote afforesting the steepest and least productive parts of land, in return for carbon credit revenue. However, 2012's collapse of carbon pricing saw this proposal parked. HBRC has instead investigated alternative funding sources and incentives to help establish trees on farms, to complement livestock and agricultural systems and protect the environment.



A key part of this is our work in the High Performance Manuka Primary Growth Partnership. The goal of this PGP is to deliver significant increases in investment returns for Unique Manuka Factor (UMF) honey. HBRC seeks to show how these returns can be delivered through its manuka trial at Lake Tūtira, as a viable alternative to pasture on steep erodible hill country. Results on this trial are

expected by 2018. As at 30 June 2014 HBRC has spent \$332,000 on this project.

Regional Landcare Scheme (RLS) – HBRC funds the RLS at \$880,000 per annum, with criteria to make sure the funding is distributed to priority focus areas. The RLS is targeted to support catchments where objectives must be met under regional plans, linked to the National Policy Statement for Freshwater.

HeatSmart – air quality in the Napier and Hastings air sheds each winter still doesn't meet government standards required by 2016.

However, HBRC's programme is helping the region move to compliance with healthier homes and improved health outcomes. Our programmes have delivered a total of 5,158 Clean Heat packages, including 2,490 in the 13-14 financial year. 2,023 assistance packages for Insulation have been delivered, including 372 in the 13-14 financial year.



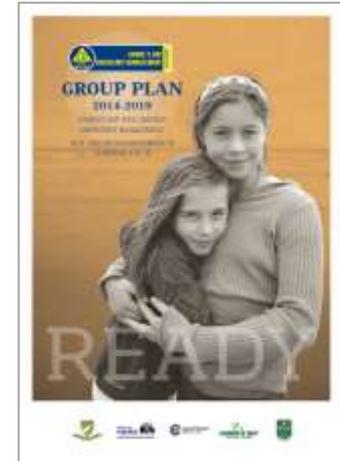
Ngaruroro Water Storage Investigations – HBRC made provision of \$27 million for a possible equity stake in a water storage scheme in the Ngaruroro catchment. However, full feasibility investigations were deferred by HBRC, awaiting the completion of more economic assessment work and the availability of staff after completing the Ruataniwha Water Storage process.

Strategic Alliances – HBRC has made good progress in this area, in particular:

1. The Regional Planning Committee has equal representation from elected councillors and treaty claimant groups, making important policy development decisions. They met four times during the year and typically consider a range of natural resource related issues, recorded in more detail following this commentary.
2. The Nature Central alliance with the Department of Conservation and two other regional councils is continuing, with focus on seven core projects including wide-scale pest and predator control.

Natural hazard assessment and mitigation

Civil Defence and Emergency Management (CDEM) – in early 2014 the Hawke's Bay CDEM Group completed a new strategic plan which incorporates the results of a capability report completed by the Ministry of Civil Defence and Emergency Management and lessons from the Canterbury earthquakes. This Plan identifies the work needed to make our community more resilient and is endorsed by all of Hawke's Bay's councils. This year the Group has commenced a review to ensure it has the resources and structure to implement this Plan over the next 5 years.



Regional Natural Hazards, Research & Planning – a joint project has been commissioned to review the potential for liquefaction in Hawke's Bay. This includes the development of a geo-technical database, following the success of the Canterbury Geotechnical Database (CGD). Canterbury Earthquake Recovery Authority (CERA) and Tonkin & Taylor with GNS Science have supported the expansion of the CGD for use in Hawke's Bay, with a view to expanding it to the rest of New Zealand in future. Work continues on a change to the Regional Policy Statement to implement a risk based approach, and strengthen the requirement for local authorities to consider the impacts of natural hazards when considering land use changes.

Makara Dam – was deconstructed due to storm damage and rebuilt. Following a Special Consultative Process and Hearing, HBRC decided to reinstate the No 1 dam and also provide for a de-silting programme. The cost of repair work was \$1,262,000. 60% was funded from the Regional Disaster Reserve and the remainder from Scheme funds, including a loan.

Regional strategic planning

Urban Growth Planning – HBRC, in conjunction with Napier City and Hastings District councils, completed the Heretaunga Plains Urban Development Strategy (adopted in August 2010), with urban containment being a principal philosophy. This led to the development and processing of *Plan Change 4 – Managing the Built Environment* to the Regional Policy Statement. Change 4 became operative on 1 January 2014. An Implementation Committee for the Strategy has since been established.

Regional Economic Development – benefitted from a targeted rate as part of the LTP process. Support continued for business growth and attraction in the region through Business Hawke’s Bay. Hawke’s Bay’s business allocation of research and development funding through Callaghan Innovation’s Regional Partner programme again exceeded annual targets. A focus on primary sector resilience was assisted through a number of Ruataniwha water storage related initiatives as well as engagement with other primary and processing sector organisations. HBRC continued to represent the region’s interests at both a regional economic development agency and central government level. In addition to funding economic research and reports, we have also played a role in select issues such as the Napier-Gisborne rail link, and oil and gas exploration.

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

Freshwater is one of our region’s most precious natural resources and much of the Regional Council’s work revolves around it. In May 2011, the Government introduced the National Policy Statement for Freshwater Management (NPSFM). The NPSFM sets a new direction for maintaining and improving water quality and protecting life in our rivers, lakes, streams and aquifers. It is mostly HBRC’s responsibility to implement NPSFM as it relates to our region. NPSFM does not specify exactly how it shall be implemented, or how policy statements and plans should be amended, which is for each regional community to determine for themselves.

In September 2012, HBRC adopted an Implementation Programme in line with Policy E1 of NPSFM. The Programme outlines key actions that council will undertake to fully implement NPSFM.¹ Policy E1² of NPSFM requires that council give an annual report on the degree to which the Programme has been implemented. The Programme does not start from a blank canvas. Even prior to NPSFM coming into effect, the Regional Council had significant elements in place that align with and give effect to NPSFM. Some of those key elements were identified in NPSFM’s Implementation Programme.

Following is a brief outline of council’s key implementation achievements during 2013-14. Appendix A gives a fuller description of these achievements and several other activities to implement NPSFM.

During the 2013-14 period, the Regional Council:

1. Completed the RMA process for Regional Policy Statement Change 4 (Managing the Built Environment) when Change 4 was made operative on 1 January 2014.
2. Continued Environment Court-assisted negotiations on four appeals against Change 5 (land and freshwater management) to the Regional Resource Management Plan.
3. Presented its evidence to the Board of Inquiry hearing the Tukituki Catchment Proposal (Plan change 6 and HBRIC’s applications for the Ruataniwha Water Storage Scheme). The Board issued its final decisions on the proposal in June 2014.
4. Assessed a variety of resource management policy options through council’s Regional Planning Committee, for catchments including the Mohaka River and the Greater Heretaunga / Ahuriri catchment area.

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

² NPSFM Policy E1(e) reads:

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

5. Achieved 100% compliance with the first phase of the transitional Resource Management (Measurement and Reporting of Water Takes) Regulations 2010 and is on track to achieve phase two by the November 2014 timeframe.
6. Facilitated the establishment of key water user groups to work towards efficient water use through alternative water management options, including groups in the Ngaruroro, Ruataniwha and wider Tukituki catchments.
7. Continued co-ordination and facilitation of interest groups for preparing regional plan changes in the Mohaka Catchment and Greater Heretaunga / Ahuriri catchment area.
8. Supported a sector-wide submission by Local Government NZ on proposed amendments to NPSFM.

Biodiversity – has seen significant progress being made on the final strategy document with strong support from our partners. The Biodiversity Strategy Steering Group is supported by a Core Working Group and expects to deliver the regional Strategy for consultation towards the end of 2014.

Provision and assessment of regional scale infrastructure and services

Ruataniwha Water Storage Scheme (RWSS) – is complementary to the Tukituki Catchment Proposal. After receiving independent advice on investment risk, and hearing community views through a public consultation process, council's investment company recommended that HBRC proceed to invest in RWSS.

Council subsequently agreed on the important decision of funding up to \$80M as an equity stake in the proposed subsidiary company to run RWSS. The key consideration ahead will be to decide if the scheme should proceed to implementation at the point of 'financial close', anticipated to be during 2015.



A concept image of the proposed Ruataniwha Water Storage reservoir, © OHL-Hawkins.

Regional Parks Network Plan – was adopted by Council in November 2013. Individual park plans have subsequently been initiated to help protect, maintain and enhance the community's popular regional park assets.

Public Transport – numbers increased for the second year running, with total passenger trips reaching a record high of 799,845; a 5% increase on the 2012-13 year.



Operational Efficiency – is an ongoing area of focus for HBRC. Numerous other operational activities that fall under HBRC's management responsibilities continued, with an eye on delivering public services, infrastructure and regulation efficiently and effectively.

Financial Reporting Benchmarks

This is the first year of Council reporting on a series of financial performance benchmarks which include rates affordability, debt affordability, balanced budget and others. Our reporting of actual performance against the targets set out in council's Long Term Plan will be reported and commented on. These new reporting measures are in line with Local Government (Financial Reporting and Prudence) Regulations 2014.

To help understand the extent to which council has been able to deliver on the financial benchmarks against targets in the Long Term Plan, please refer to the charts presented in the first part of this Annual Report.

Lastly

Overall, it has been a busy and fulfilling year for HBRC, working across a range of stakeholder and community groups, addressing activities that will in time have either national, regional or local-scale effects for the wellbeing of our Hawke's Bay community.



Liz Lambert, Interim Chief Executive



Fenton Wilson, Chairman

Report on Maori Contribution to Council Decision-making Processes

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

Regional Planning Committee

The Regional Planning Committee was established in April 2012 to consider and provide recommendations to Council on resource management and strategic environmental planning. The Committee is made up of an equal number of Regional Councillors and representatives from each of the Hawke's Bay Treaty Settlement Claimant groups. The Committee is chaired under a dual chairmanship arrangement. The current Co-chairs are the Regional Council Chairman and Mr Toro Waaka, the Ngati Pahauwera representative on the Committee. Having been permanently established by the Council, the Committee is not dissolved every three years while local body elections take place. This enables the Committee and in particular the Treaty Settlement Claimant groups, to undertake long term planning spanning multiple years. Since forming, the Committee has worked together without a formal Government mandate, pending the passage of legislation. They operate under the principles of co-governance to ensure that tāngata whenua are active decision makers in managing their taonga under the Resource Management Act 1991.

The Committee met formally four times between July 2013 and June 2014 to consider issues and make recommendations to the Regional Council. There have been a number of multi-year projects and items that the Committee has considered this year, these are:

- Taharua/Mohaka Catchment Policy Development and Stakeholder Engagement
- Change 5 (Land and Freshwater Management) appeals
- Draft annual report for national policy statement (NPS) freshwater management implementation programmes

- Resource Management Reform
- Greater Heretaunga/Ahuriri Catchment Plan Change
- Local Government Reorganisation
- Change 6 (Tukituki River Catchment) Draft Board of Inquiry Decision
- Intergovernmental Panel on Climate Change Working Group presentation

Four members are accredited Resource Management Act hearing commissioners.

Maori Committee

There have been 5 two-monthly meetings of the Maori Committee during the year. There were twelve tangata whenua appointees on the committee as well as four elected representatives of Council.

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

Two Maori Committee representatives have been appointed to the Corporate and Strategic Committee, which met on 4 occasions during the year.

The Chairman of the Council's Maori Committee has attended 17 meetings of the Regional Council where he has speaking rights on all issues.

The Maori Committee is also represented on the Hearings Committee, with three members being accredited Resource Management Act hearing commissioners.

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

Direct Hapū and Other Involvement

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

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

Report on Council Controlled Organisations

Introduction

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

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

Ownership and Control Policies

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

During this year there have been no changes to the ownership of HBRIC Ltd, however changes have been made to the company's governance arrangements.

In December 2013, Council resolved to appoint two new Independent Directors to replace the three Councillor Directors and Managing Director on the HBRIC Ltd Transition Board. It is intended that the Transition Board be replaced with an ongoing Board after the date of financial close for the Ruataniwha Water Storage Scheme which is anticipated to be in the second half of the 2014/15 financial year.

Nature and Scope of Activities

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

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

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

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

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

- Own and manage the investment assets and liabilities transferred to it by Council from time to time.
 - HBRIC Ltd continued to manage the investment in the Napier Port following the transfer of shares from Council on 25 June 2012.
 - On 21 December 2012 the feasibility assets of the Ruataniwha Water Storage Scheme were transferred from Council to HBRIC Ltd along with responsibility for progressing the project to the conclusion of the resource consent application phase. HBRIC Ltd continued to manage this investment through this phase which is anticipated to conclude in the second half of the 2014/15 financial year.
- Make new investments and dispose of current investments in pursuit of its objectives.
 - The continued investment in the development phase of the Ruataniwha Water Storage Scheme has been made in pursuit of HBRIC Ltd's objectives.

- Investment in and manage a range of financial and physical assets in accordance with Council’s investment policy detailed in the Long Term Plan 2012-22.
 - HBRIC Ltd has managed its investments in accordance with Council’s investment policy detailed in the Long Term Plan 2012-22.
- Raise funds for investment but at no time by selling any of Council’s 100% shareholding in HBRIC Ltd or Napier Port without Council undertaking a special consultative process.
 - No funds were raised for investment in the current year.
- Assist its subsidiary and associated companies to increase shareholder value in regional prosperity through growth and investment.
 - The HBRIC Ltd Board meets with the Napier Port Chairman and CEO on a quarterly basis to discuss its operating activities and any investment opportunities that have the potential to increase shareholder value.

Other Key Performance Targets

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

Initial Performance Targets		
Performance Indicator	Target	Actual
Net debt to net debt plus Equity	<40%	26%
Interest cover (EBIT/Interest Paid)	>3x	6x
EBITDA/Total Assets	8%	11%
Return on Shareholders’ Funds	5%	8%

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

Statement of Compliance and Responsibility

Compliance

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

Responsibility

2. The Council and management of Hawke's Bay Regional Council accept responsibility for the preparation of the annual Financial Statements and the judgements used in them.
3. The Council and management of Hawke's Bay Regional Council accept responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
4. In the opinion of the Council and management of Hawke's Bay Regional Council, the annual Financial Statements for the year ended 30 June 2014 fairly reflect the financial position and operations of Hawke's Bay Regional Council.



Fenton Wilson
Chairman

24 September 2014

Liz Lambert
Interim Chief Executive

24 September 2014



Paul Drury
Group Manager
Corporate Services

24 September 2014