



Annual Report 2016

Queen Elizabeth II National Trust



QEI National Trust
Open Space New Zealand
Ngā Kairauhī Papa



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Annual Report 2016 of Queen Elizabeth II National Trust (the National Trust) / Ngā Kairauhī Papa. Presented to the House of Representatives pursuant to section 32 of the Queen Elizabeth the Second National Trust Act 1977.

Queen Elizabeth II National Trust is an independent statutory organisation and a registered charitable entity under the Charities Act 2005.

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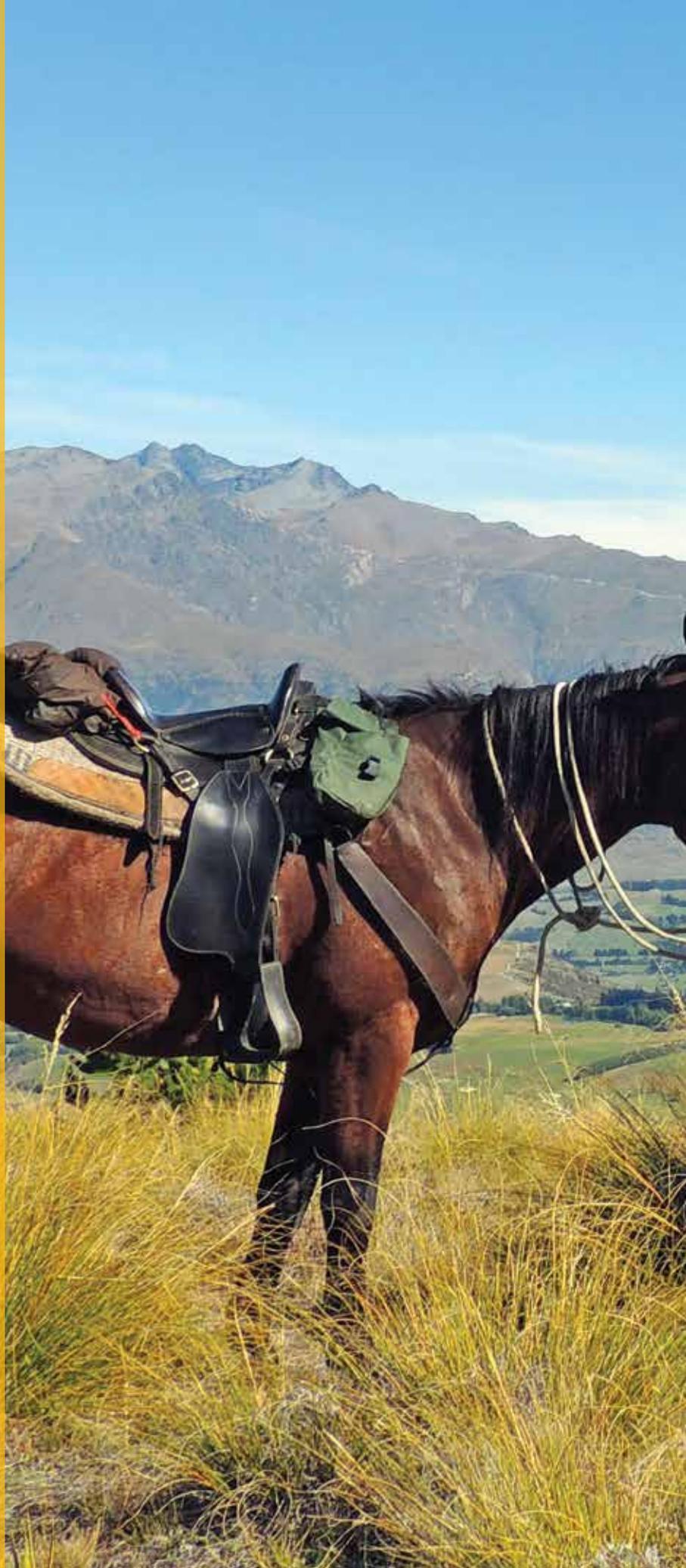
Cover photo: Members of the National Trust's land protection team, Bridget Makan (front) and Genevieve Bannister helping out with a planting project in a Tararua covenant. Funds for the project were raised using the Million Metres Streams crowdfunding website, a Sustainable Business Network initiative set up to help communities and individuals raise the funds they need to protect the health of New Zealand's waterways.

This page: 'Conifer Cavalry' volunteer Alex Brown-Hunt and his horse Harley took part in a QEII National Trust and Weedbusters NZ joint weedbusting programme run during Easter 2016. The pilot programme enlisted volunteers on horseback to access difficult high country areas and tackle wilding conifers that threaten to overrun the landscape.

Back cover: Covenanted land. Photo Mark Sutton.

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Chair and Chief Executive Joint report

As our 40th anniversary approaches next year, we have been reflecting on how far the organisation has come since it was established in 1977. We have registered two covenants a week on average since then. The number of covenants has grown from single digits in the late 1970s to just over 4250 covenants today, protecting around 165,000ha.

We are proud of our partnership with landowners and the network of open space covenants that we have established together. This year we formally registered another 118 covenants and approved a further 121 covenant proposals.

We are extremely grateful to the many organisations, groups, and individuals who have helped the National Trust and its covenantors to protect rare and threatened biodiversity on private land. Their support is critical to our success. We are most grateful for the ongoing funding support we receive from many councils and contestable funding agencies.

During the year we developed and strengthened partnerships and programmes that have supported covenantors with weedbusting efforts, pest control, riparian enhancement, and the health of waterways in covenants.

More forest protection

This year we received an additional \$1 million funding allocation (spread over 3 years) from the Government to support a pan-Commonwealth programme called the Queen's Commonwealth Canopy Initiative (QCC). Announced at the opening of the Commonwealth Heads of Government Meeting (CHOGM) in Malta in November 2015, the initiative marks Her Majesty's long reign and dedication to the Commonwealth. It aims to create a network of native forest conservation programmes throughout the Commonwealth.

New Zealand was one of the first Commonwealth countries to support the initiative and we were delighted to be given the responsibility of fulfilling our country's contribution towards it to help protect this most critical of ecosystems. The funding will allow us to establish at least 40 more forest covenants over the 3 year-period than we normally could have with our baseline funding. This year we established 11 additional forest covenants using the fund.

Defending covenants

We have had to defend the status of a Coromandel open space covenant several times in court in what has been a long legal battle between the National Trust and a property developer. The developer has been challenging the status of the covenant he owns, wanting to have it removed so the land it protects could then be subdivided for lifestyle blocks.

We thought the case had been settled when the High Court ruled on the matter in 2015, confirming the indefeasible status

of open space covenants and clarifying that they were unable to be removed from a land title. However, the appellant did not accept the ruling and challenged the status again, this time in the Court of Appeal.

Described as a 'complex' case, the Court of Appeal ruled decisively in favour of the National Trust. The decision established new case law and upheld the existing case law from the previous High Court hearing. The Court confirmed that the National Trust acted in the best interests of the original covenantor and fulfilled its statutory mandate for the benefit of the people of New Zealand.

We once again had believed that the Court of Appeal ruling would be the end of this costly litigation process; however, we have since been advised that the appellant has lodged an appeal to the Supreme Court. At the time of writing, this appeal has not yet been heard.

This case highlights a strategic risk that the National Trust faces. Ownership changes are becoming more common (this year we processed around 320 changes of ownership), and while the vast majority of those managing covenants for the first time become enthusiastic guardians, a few do not.

Our preference is to resolve covenant breaches through dialogue. If that fails, the National Trust has legal mechanisms in its Act to call upon. Resolution through the courts is costly, time consuming, and distracts us from our core business, but we are prepared to take legal action when facing serious attacks on the integrity of covenants. Over the past 4 years the National Trust has incurred costs of approximately \$430,000 to defend covenants. Attacks like these strike at the heart of our role as the perpetual trustee of the covenant agreement. We are confident that the indefeasibility of our covenants will be enshrined in case law from the highest legal jurisdiction and these sorts of attack will cease.

Strategic direction

During the year, the Board revisited the National Trust's strategic plan. Unsurprisingly, our future hinges on partnerships and funding. The focus over the past 3 years has been to strengthen the relationships we have with support agencies, political influencers, and other participants in private sector conservation. While we will continue to reinforce those alliances, we also need to broaden our appeal to a much wider public base. This will see the National Trust lift its profile, particularly with urban New Zealand where we believe there is a reservoir of support for private land conservation.

The National Trust holds a unique position and has an enviable record in biodiversity protection and we must play to these strengths if we are to maintain a financially viable future.

National Trust liabilities

When reading the financial accounts in this report you will notice a change to the way we have reported what was previously recorded as a contingent liability in past annual accounts. Prior to 1995, the National Trust had a policy to assist new covenantors with the cost of establishing initial covenant fences and replacing those fences at the end of their effective life. At the time, this agreement was probably not considered burdensome, but with the passage of time and escalating costs of fencing it became an unsustainable liability.

Since 1995, the National Trust has continued to offer financial support for new covenant fences when they are established, but no longer contributes to fence replacement costs for covenants registered after that year.

Up until now, this pre-1995 fencing replacement obligation was disclosed as a contingent liability in the Notes to the Financial Statements in our Annual Report but was not included in the Statement of the National Trust's financial position — the future estimate of this liability was not considered to be sufficiently reliable to be recognised as a liability on our balance sheet.

Over the past 2 years the Board and senior staff took extensive external advice to ensure that the information we use to calculate this future liability is robust. As a consequence, the Board has determined that this liability is now appropriately reflected in our balance sheet.

This year, the obligation has been disclosed on the Statement of Financial Position for the first time as a provision liability of \$7.646 million, with the initial recognition expense of the same amount being included in the Statement of Comprehensive Revenue and Expenditure. This has had a significant effect on the income statement, giving the appearance of a substantial one-off loss. This is explained in some detail in Notes 1 and 12 to the financial statements. The Directors wish to emphasise that the National Trust remains in a secure financial position.

Over the past decade, the National Trust has built up a significant investment portfolio, which will be used to fund the pre-1995 fencing liability into the future. This has been prudent fiscal management, but has also constrained the National Trust's ability to support covenanting and other activities such as weed and pest control. The National Trust intends to reduce this pre-1995 fencing liability further over the next few years, freeing up funds to support covenantors.

The National Trust will continue to honour its contractual obligations to covenantors with pre-1995 fencing agreements. It should be noted that all covenant agreements require regular maintenance of fences, so they are fit for purpose. The National Trust is very grateful for the generosity of the many covenantors who have voluntarily chosen to waive the pre-1995 fencing clause in their covenant agreements to help reduce the liability.

Gordon Stephenson

The Board and staff were saddened at the news of Gordon Stephenson's death on Boxing Day last year. A key founder of the National Trust, Gordon was a visionary environmentalist with a deep appreciation of New Zealand's natural heritage. His influence and the conservation movement he and Celia Stephenson triggered in establishing New Zealand's first QEII National Trust open space covenant in 1979 changed the

way natural and cultural places on private land are valued and preserved in New Zealand. Gordon was also a great friend and a constant source of support and advice for the National Trust. He is greatly missed.

New Board Directors

National Trust members elected two new Board Directors this year. Donna Field has a background in resource management and is a Director of Cleardale Station, a 1400ha sheep and beef property in the Rakaia Gorge, Canterbury. Michael Legge is a retired Associate Professor of Biochemistry and Pathology at Otago University. Their combined conservation and environmental planning experience and involvement with many environmental organisations and initiatives has meant they have slotted in effortlessly and have been able to engage immediately with the Board's business.



Board of Directors from left to right: Bruce Wills, Donna Field, Mike Legge, Gina Solomon, James Guild (Chair), Sue Yerex

Acknowledgments

This year we farewelled retiring Board Directors Megan Balks and James Hunter, who served 6 years and 9 years respectively. The Board of Directors thanks Megan and James and acknowledges the huge contribution both made during their time as Directors. Both were rigorous champions of covenantors' rights and very effective contributors around the Board table.

The National Trust thanks its exceptional staff and regional representatives and acknowledges their professionalism, technical expertise, and unwavering commitment to supporting the National Trust's mission and the aspirations of covenantors to protect special places on private land.

James Guild

Chair
QEII National Trust



Mike Jebson

Chief Executive
QEII National Trust





Who we are

Queen Elizabeth II National Trust (the National Trust) is a registered charity and an independent statutory organisation with its own Act — the Queen Elizabeth II National Trust Act 1977 (our Act).

The National Trust was set up in 1977 by farmers for farmers and other landowners at a time when government subsidies were offered to encourage bush and wetland clearance on farms. These visionaries wanted a way to legally and permanently protect what remained of those features on their properties. They wanted this process to be voluntary. They also wanted to retain ownership of the land they were protecting. The National Trust was established as a mechanism to help them realise their aspirations.

The National Trust is governed by a board of directors and is supported by 16 staff based in Wellington. Part- and full-time regional representatives are contracted to cover 26 geographic regions throughout the country.

Our operating budget is approximately \$5 million per annum. Eighty percent of this amount is funded by a government grant (through Vote Conservation funds). The balance is received from donations, member subscriptions, successful contestable funding bids, and other grants.



Our mission

Partnering to protect special places on private land for the benefit of present and future generations

Our vision

Growing the network of protected places in New Zealand



‘One strength of the covenanting process is that covenants are entered into without the inducement of grants or compensation, with no pressure to sign, but simply because of a conviction that is is the right thing to do. The other strength is that we end up with every one of these treasured places having its own guardian or ranger. This is true kaitiakitanga in action.’

Gordon Stephenson (10 October 1924 – 26 December 2015) — a key founder of the National Trust. Gordon and Celia Stephenson registered the National Trust’s first covenant in 1979.

Left: Covenantors field days are held four times throughout the year and are a highlight of the National Trust’s events calendar. The events are great networking occasions where covenantors, associates, and the National Trust’s Directors and staff can meet one another, discuss covenanting matters, and share knowledge and best practice.

What we do

The National Trust was set up to protect, promote, encourage, and enhance special natural and cultural features on private land (referred to as open space values in our Act). We achieve this primarily through our partnership with landowners, working with them to permanently protect these features on their land with open space covenants.

We manage the covenanting process completely in-house, from the initial assessment of a landowner's covenant proposal to all the administrative and legal steps required to draw up a covenant agreement and finally register the covenant on the land title. Once covenants are registered, our regional representatives monitor their condition on a regular basis and provide management advice to landowners, if required.

We exercise a number of other statutory functions including considering landowners' requests for consents to carry out certain activities in their covenants or to vary their covenant agreements.

We are not funded to help covenantors financially with managing their covenants. We meet this need partly by looking for third-party support for covenantors whenever we can, for example, through partnership agreements or by applying on their behalf for funding grants.

We want to encourage all New Zealanders to appreciate and support our work and the philanthropic actions of covenantors who are voluntarily protecting special places on their land. We work closely with central and local government and a wide range of other organisations and people throughout the country to achieve this goal.





Key function

To encourage and promote for the benefit and enjoyment of the present and future generations of the people of New Zealand, the provision, protection, preservation, and enhancement of open space.

Open space description

Any area of land or body of water that serves to preserve or to facilitate the preservation of any landscape of aesthetic, cultural, recreation, scenic, scientific, or social interest or value.

Reference: Our Act

A National Trust consent allows a couple to run a glamping business in an existing clearing in their covenant. The consent was able to be issued because the purpose and objectives of the covenant agreement would not be compromised by the activity. Photo: canopycamping.co.nz

Our role as perpetual trustee

Covenant agreements established with the National Trust are permanent and bind the current and all future owners of the covenanted land.

Landowners retain ownership of their covenants and are responsible for managing them. We have an ongoing relationship with them as the perpetual trustee partner, providing management support and advice and ensuring the covenant agreement is respected for all time.

Monitoring

As part of our role as perpetual trustee, we monitor covenants on a regular basis so their condition can be evaluated. This provides an opportunity to celebrate the covenant's condition and/or discuss any management issues with the landowner.

During a monitoring visit, a covenant may be recorded as 'requires attention' if the terms and conditions of the covenant agreement are not being met (a legal compliance issue) or if the covenant's values are deteriorating (a condition issue) despite the landowner complying with the terms and conditions of the covenant agreement.

If issues exist, we work with landowners to find the best practical solution to improve the covenant's condition and/or address a legal compliance issue. In some cases we may seek assistance from other stakeholders on behalf of the landowner (for example, a council may be able to help out with a regional weed infestation issue).

On very rare occasions, deliberate or attempted serious breaches of the covenant agreement have been taken to court after lengthy negotiations with the landowner have failed to achieve a satisfactory resolution.

National Trust regional representatives monitored 1907 registered covenants during the 2015–2016 financial year. Of those, 237 were deemed to require attention because of condition and/or legal compliance issues.

Other statutory functions

Besides monitoring, the National Trust exercises a number of other statutory functions in its role as perpetual trustee of the covenant agreement. These include:

- landowner requests for variations to covenant agreements or consents to carry out certain activities in covenants (variations and consents are only approved if they are not contrary to the purpose and objectives of the covenant agreement)
- significant covenant stewardship support
- compliance and enforcement action
- Resource Management Act 1991 and other third-party activities affecting covenants.

During the reporting period, a range of statutory functions (including one Court of Appeal proceeding) were exercised for 465 covenants.



Summary of this year's monitoring results and other statutory functions



4226

Perpetual trustee for this number of covenants



1907

Total number of covenants monitored this year



88%

No issues identified



12%

Required attention



2

Serious legal compliance issues (under reparation)



465
covenants

Other statutory functions exercised

Our partnership with landowners

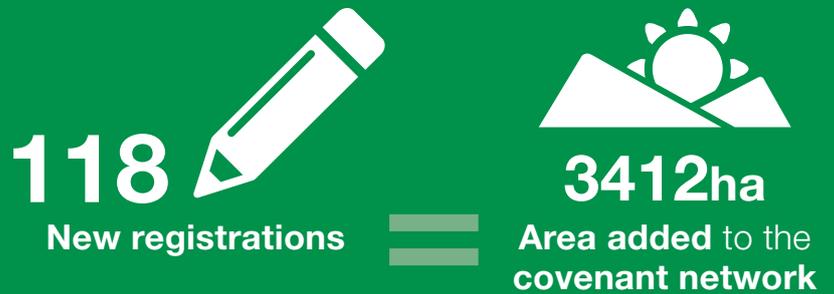
Ever since the National Trust was established in 1977 it has worked in close partnership with landowners to steadily grow the network of protected places on private land. On average, we have registered two open space covenants a week during our 40 years of operation. Many different environments, features, and values are protected in open space covenants including landscape features, forest remnants, wetlands, dunelands, threatened species habitat, geological sites, historic and culturally important sites, and public access.

This financial year we registered 118 open space covenants with landowners, adding 3412ha to the covenant network. We approved another 121 covenant proposals covering around 2742ha.

At 30 June 2016, the total number of registered covenants was 4226, protecting 166,699ha. The combined area of all registered and approved covenants (and formal agreements) totalled 182,677ha.



This year's covenanting numbers





Working with others

The National Trust supports community conservation initiatives and works with others to rally support for covenants to help protect special places on private land.

We work with many organisations and people including the Department of Conservation, regional and district councils, universities, the New Zealand Walking Access Commission, Heritage New Zealand, trusts, volunteers, sponsors, and partners.

We have a close association with the New Zealand Farm Environment Trust, and are a proud sponsor of the Balance Farm Environment Awards it administers.

The National Trust supports a number of education and research programmes that promote an understanding of how covenants benefit the environment and society, and how we can better maintain and enhance native biodiversity on private land. Research projects currently underway include biocontrol trials, species recovery programmes, and studies into the sustainability of forest remnants. We fund an undergraduate bursary and a PhD scholarship.



We thank the many organisations, groups, and individuals who worked alongside us this year

Northland Regional Council, Whangarei District Council, Martin Hunt, Whangarei Heads Landcare Forum, Dr Karen Verdurmen (Kauri Dieback surveyor), Kiwi Coast Think Tank, Tutukaka Landcare Coalition, Reconnecting Northland, Far North District Council, Kevin Matthews, Anthea Goodwin, Kerikeri Shadehouse Volunteers, Auckland Council, Auckland Council Environment Initiative Fund, Mark Dunn, Gisborne District Council, Tolaga Bay Area School, Tairāwhiti Environment Centre, Longbush Ecological Trust, Friends of Mokotahi Hill, Waikato Regional Council, Waikato Regional Council Environment Initiative Fund, Waikato River Authority, Waikato Weedbusting Squad, Jan Simmons (DOC Hamilton office), Waikato Biodiversity Forum, Kiwis for Kiwi, Whenuakite Kiwi Care Group, Thames Coast Kiwi Care Group, Moehau Environment Group, Coromandel Kiwi Project, Mahakirau Forest Estate Society, Papa Aroha Environment Group, Bay of Plenty Regional Council, Taranaki Tree Trust, Taranaki Biodiversity Trust, Taranaki Regional Council, New Plymouth District Council, South Taranaki District Council, Taranaki Electricity Trust, Hawkes Bay Regional Council, Friends of Te Mata Park, Horizons Regional Council, He Tini Awa Trust, Masterton District Council, Carterton District Council, Wellington City Council, Greater Wellington Regional Council, Mauriceville School, Martinborough School, Rangitane o Wairarapa, Wairarapa Forest and Bird, Environment Canterbury (ECan), Mid and South Canterbury Community Trust, South Canterbury Conservation Trust, Ashburton District Council, Timaru District Council, Sinclair Wetlands Management Group, Ngai Tahu, University of Otago Student Research Programme, Environment Southland, Waiau Trust, Queenstown Lakes District Council, Southland District Council, Sustainable Business Network's Million Metres Stream Project, Forest and Bird, Walking Access Commission, the Department of Conservation (DOC), DOC's Conservation Partnership Fund and Biodiversity Condition and Advice Fund, DOC's GIS team, Land Information NZ, Fonterra-DOC Living Water, Steel and Tube, Lotteries World War I Environment and Heritage Fund, Landcare Research, NZ Landcare Trust, Massey University Scholarships Committee, Weedbusters NZ, Predator Free New Zealand, Malcolm Pullman for photography. We thank our financial members for their loyal support. We thank those who generously gifted money to the National Trust this year.



Students from Tolaga Bay Area School, community volunteers, landowners, and Gisborne District Council pest plant control staff, aka the Uawa Weed Warriors, joined the National Trust and Weedbusters NZ to tackle a Japanese honeysuckle infestation that is threatening the health of Parkers Bush covenant near Gisborne. The covenant has been identified as one of the most valuable forest remnants in the ecological district.

Main picture: The National Trust and Horizons Regional Council staff joined forces to help out with a riparian planting project in a Tararua covenant, made possible through funds raised on the Million Metres Streams crowdfunding website.

Prioritising protection

Our publicly owned national parks generally protect biodiversity in high upland areas of New Zealand — areas covering around 30% of our country that were often too difficult to develop. The National Trust and National Trust covenants play a crucial role in protecting biodiversity across the 70% of our lowland landscapes that are privately owned and have been highly modified. This is where some of New Zealand's richest biodiversity is represented, but where it is least protected and most at risk.

With current baseline resourcing we can afford to establish around 110 new covenants a year. The demand from landowners to covenant land is higher than this number, so we prioritise covenant proposals carefully.

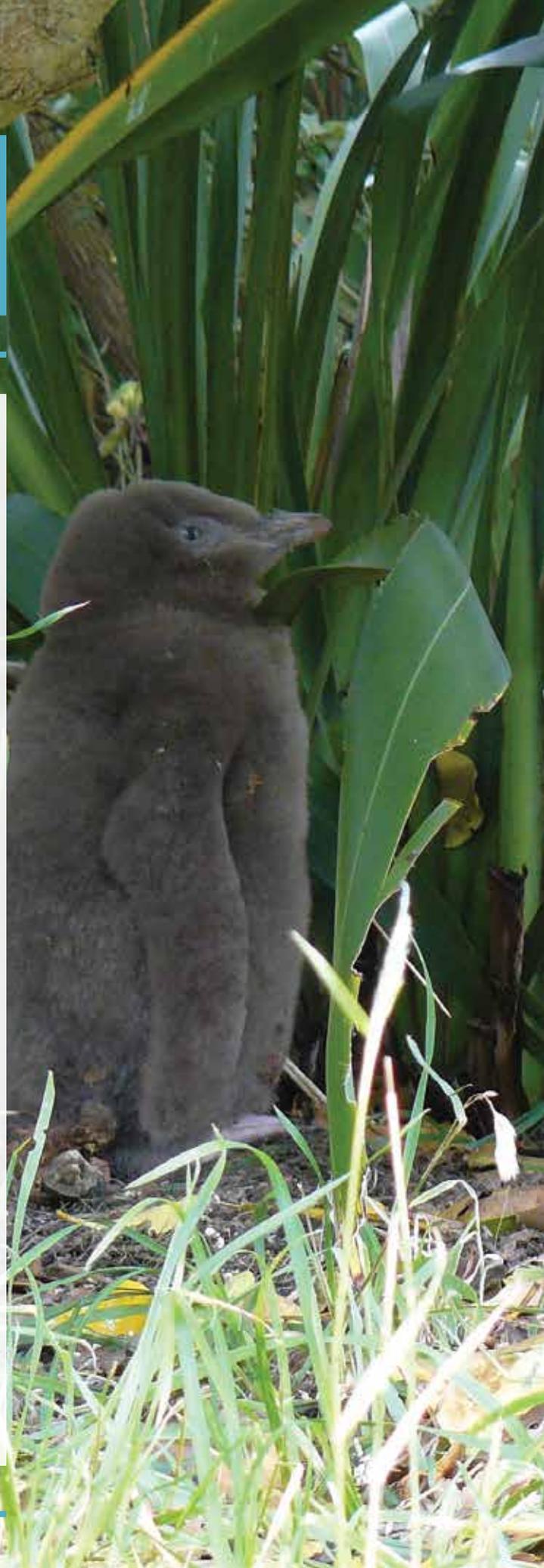
Our annual target is that 90% of all new covenant approvals support at least one of the four ecosystem and habitat types identified in the Statement of National Priorities for Protecting Rare and Threatened Native Biodiversity on Private Land (developed in 2007 by the Department of Conservation and the Ministry for the Environment).

The four national priorities for biodiversity protection on private land are:

1. To protect indigenous vegetation associated with land environments that have 20% or less remaining in indigenous cover.
2. To protect indigenous vegetation associated with sand dunes and wetlands — ecosystems that have become uncommon due to human activity.
3. To protect indigenous vegetation associated with 'naturally uncommon' ecosystems — ecosystems that are naturally unusual or rare.
4. To protect habitats of acutely and chronically threatened indigenous species.

Other factors considered when prioritising proposals include the condition of the site's vegetation, the site's connectivity with other protected areas, landowner motivation, and the long-term sustainability of the site.

The remaining 10% of covenant approvals may protect diverse features such as important landscapes, cultural and historic values, geological sites, and opportunities for public access and enjoyment of open space.





Queen's Commonwealth Canopy initiative

This year the National Trust received an additional funding allocation of \$1million from the Government to support a programme called the Queen's Commonwealth Canopy Initiative (QCC).

The QCC initiative was announced at the opening of the Commonwealth Heads of Government Meeting (CHOGM) in Malta in November 2015 as a way to mark Her Majesty Queen Elizabeth II's long reign and dedication to the Commonwealth. QCC is a partnership between The Palace, The Royal Commonwealth Society, and a rainforest charity called Cool Earth. It aims to create a network of rainforest and native forest conservation programmes throughout the Commonwealth and show that 'irrespective of geography, economy, culture or tenure, solutions exist to the threats facing these most critical of ecosystems'.

The Commonwealth's 53 members have been invited to contribute to QCC and demonstrate that its citizens are leading the world in their efforts to protect native forests. New Zealand was one of the first countries to support the initiative.

The QCC funding allocation will be spread over 3 years and will allow for the establishment of at least 40 more forest covenants over that period.

The following covenants were established under the fund this year:

Label	Area	Location
Mount Terako covenant	392ha	Waiau, North Canterbury
Brooklands Station covenant	30ha	Alfredton, Tararua
Smith covenant	5.5ha	Pukerua Bay, Wellington
De Greeuw 3 covenant	51.5ha	Mara, Tararua
Hodder covenant	3.5ha	Featherston, South Wairarapa
Charlton covenant	75ha	Wainui Bay, Tasman
Piripiri Station covenant	91ha	Awakino, Waikato
Gardner covenant	61.5ha	Awakiki, Otago
Tokoeka Trust covenant	47ha	Kohukohu, Northland
Wylie covenant	16.3ha	Tahatika, Otago
Sanford covenant	21ha	Te Puru, Waikato
Total	807.3ha	

Twelve South Island covenants are known to be protecting the habitat of the yellow-eyed penguin/hoiho (threatened–nationally vulnerable).

Photo: Lorelee Hyde

Examples of covenant approvals this year that support strategic priorities for land environment and biodiversity protection on private land



A cave and karst system with an interesting history

A 7ha area owned by Graymont (NZ) Limited was approved for covenanting in Waikato's Waitomo area. The covenant's objectives are to protect a subterranean cave and karst system and associated flora and fauna, and to promote public awareness and enjoyment of the system.

The karst cave system and its sink holes are naturally uncommon and endangered ecosystems. Vegetation includes mangearo (*Litsea coalicaris*) and New Zealand gloxinia (*Rhabdothamnus solandri*), which are both associated with limestone environments in western Waikato. The cave has cultural significance as it is adjacent to a once well-used Māori walking trail which later became a bridle trail, before the development of roads in the area.

The cave is also of historic and archaeological note, being the first in Waitomo to be explored and recorded by a European (Dr Arthur Thomson) in 1849. Dr Thomson recorded its Māori name, Te Ana o te Atua (The Cave of the Spirit), and his reasons for visiting (collecting fossil bird bones) in a paper published in 1856. In the 1980s, Chris Templar found a huia skeleton there (now on display at Waitomo Museum) and bones from the extinct laughing owl/whēkau. Excavations are no longer allowed in the cave.

Special features

- **National priority: no. 3**
- **Cultural and historic heritage**
- **Recreation**

Photos: Cave interiors — Nardene Berry, Gloxinia — Tony Gates



A Northland forest habitat for threatened kiwi and native frogs

A 134ha kauri and podocarp forest in Kaipara was approved for covenanting this year. It is in the Brynderwyn Ranges surrounded entirely by indigenous forest in a landscape that is ranked underprotected (>30% left and 10–20% protected). This block provides a significant area of protected habitat for North Island brown kiwi (threatened–nationally vulnerable) and Hochstetter's frog/pepeke (at risk–declining). The block also provides biodiversity, soil, and freshwater conservation values, and adds to a network of other protected areas within a 3km range.

Special features

- **National priority: no. 4**
- **Connectivity**

Photos: Hochstetter's frog — DOC, Bush photo — Nick Match



A threatened environment and vulnerable species habitat

A 26ha block in North Taranaki containing semi-coastal rimu, miro, and pukatea forest was approved for covenanting this year. The site's environment classification ranking is acutely threatened (<10% indigenous vegetation left). North Island brown kiwi (threatened–nationally vulnerable) live in the forest. The landowner has also observed native bats (not yet been formally identified). New Zealand's two bat species are both ranked as threatened–nationally vulnerable.

Special features

National priorities: nos. 1 and 4

Photo: Neil Phillips



A Southland wetland with naturally uncommon ecosystem values

A 17ha wetland area and associated grey scrub was approved for covenanting this year. The area is part of an extensive wetland complex on a Landcorp property in Southland's Waiau catchment. Its vegetation is currently dominated by two carex species and wire rush. Sphagnum and the wiwi rush are also present. The adjacent land has grey scrub with mānuka, mingimingi, bog pine, red tussock and bracken. A spring and associated seep (a naturally uncommon ecosystem) flows into the wetland and stream systems.

Special features

- **National priorities: nos. 1 and 3**
- **Connectivity**

Photo: Mark Sutton

Examples of covenant approvals this year that support strategic priorities for land environment and biodiversity protection on private land



A coastal covenant with endangered plants and animals

A 9ha block was approved for covenanting on Cape Campbell in Marlborough near Seddon. It encompasses coastal sand dunes, grassland, gravel fields, and shrubland. The nationally endangered and locally endemic yellow-flowering *Senecio hauwai* and ground weta (*Hemiandrus 'promontorius'*), and the nationally endangered *Muehlenbeckia astonii* will be protected in this covenant. The area has connectivity to other covenants in the area. As a prominent part of the Marlborough landscape, its scenic qualities are also valued.

Special features

- **National priorities: nos. 1, 2 and 4**
- **Connectivity**
- **Landscape values**

Photos: Scenic – Tom Stein, Flower – *Senecia hauwai*/NZPCN, Ground weta – Gil Wizen

A West Coast wetland with special natural and cultural values

Approved for covenanting this year, Kohuamaru Preserve is a 1.9ha wetland located in South Westland. The area is of considerable importance to Ngāi Tahu as it was once a habitation and food gathering site. A good range of bush birds are present such as kererū, robin, tui, and bellbird and the wetlands may be used by fernbird (at risk–declining) and bittern (nationally endangered). Rowi (nationally critical), New Zealand's rarest kiwi species, are now only found in this area.

The vegetation is highly representative of pre-human vegetation with all indicator species present, such as searush, glasswort, and sea primrose in the estuarine environment. The brackish water area has oioi (a rush) and three-square (*Schoenoplectus pungens*), and freshwater species including toetoe, swamp flax, and tangle fern.

Special features

- **National priorities: nos. 2 and 4**
- **Cultural and visual values**

Photos: Scenic: Martin Abel, Rowi kiwi – Vivienne Parker/DOC



Mount Terako covenant

Mount Terako covenant is a 392ha block located on Mount Terako on the Seaward Kaikoura Range. It contains montane beech forest, subalpine scrub, shrubland and rockfields, and rupestral (rocky) and alpine herbfields. It provides habitat for kea (nationally endangered), kaka (nationally vulnerable) and occasionally eastern falcon (declining) as well as *Epilobium forbesii* (a regionally endemic perennial herb that is at risk—naturally uncommon), and the carnivorous snail *Wainuia edwardi* (declining).

The area also has significant landscape values and will extend and enhance habitat options for native species because of its good connectivity to the surrounding protected areas of Snowden Scenic Reserve, Molesworth Recreation Reserve, and Ka Whata Tu o Rakihouia Conservation Park.

Special features

- **National priority: no. 4**
- **Connectivity**
- **A Queen’s Commonwealth Canopy covenant**

Photos: Scenic – Miles Giller, Kaka – Allan Bennet



Lasting protection for ephemeral wetlands, lizards, and plant communities

A 93ha covenant proposal approved in the Otago area contains plant communities, ephemeral wetlands, seepages and flushes, shrublands, rocky outcrops, and tussockland, and has good connectivity to a nearby covenant with similar attributes. With this additional protection the habitat values contained in both these naturally uncommon ecosystems are enhanced and extended.

Two threatened plant species occur at the site: mousetail (*Myosurus minimus subsp. novae-zelandiae*), which is nationally endangered, and the wetland buttercup, *Ranunculus ternatifolius*, which is nationally vulnerable. The area is habitat for a further seven at-risk plant species and a wide range of lizard species that are at-risk—declining mainly because of predators and habitat loss.

Special features

National priorities: nos. 1, 2, 3 and 4

Photo: Wetland – Robin Thomas

Covenant statistics

at 30 June 2016

National Trust covenants on Landcare Research Threatened Environments map

Regional Council area	Total land area in region (ha)	Total approved covenants	Total registered and formalised* covenants	Total number of covenants approved, registered and formalised	Total area approved, registered and formalised covenants (ha)**	Total area registered and formalised covenants (ha)	Largest registered covenant in the region (ha)	Average covenant size (ha)** includes all approved, registered and formalised	Median covenant size (ha)** includes all approved, registered and formalised
Auckland	500,000	18	280	298	4,593.5	4,237.4	840.8	15.4	3.1
Bay of Plenty	1,223,100	11	171	182	9,547.8	9,314.6	6,563.5	52.5	4.3
Canterbury	4,220,000	54	301	353	18,899.6	12,872.0	2,350.0	53.2	8.1
Gisborne	826,500	12	135	147	4,589.2	4,349.2	1,103.8	31.2	9.1
Hawke's Bay	1,420,000	5	244	249	10,699.4	10,560.6	4,606.0	43.0	10.0
Horizons	2,221,500	38	350	388	9,101.8	7,794.3	352.3	23.5	8.1
Marlborough	1,049,500	4	76	80	4,337.5	4,029.3	1,055.7	54.2	6.9
Nelson	42,100	2	14	16	311.8	302.3	139.5	19.5	6.0
Northland	1,250,000	29	668	697	10,230.0	9,771.4	417.4	14.7	3.7
Otago	3,200,000	28	187	215	63,602.6	62,527.8	21,909.6	295.8	8.4
Southland	3,035,000	22	322	344	7,987.4	7,106.4	808.7	23.2	9.2
Taranaki	723,600	49	355	403	9,351.8	7,851.0	753.9	23.2	3.1
Tasman	978,600	13	154	167	2,779.1	2,449.6	515.6	16.6	4.0
Waikato	2,500,000	37	613	650	17,439.9	16,090.3	801.6	26.8	7.0
Wellington	813,000	32	321	353	6,325.6	5,916.4	824.3	17.9	4.7
West Coast	2,300,000	16	68	84	2,879.8	2,455.1	619.1	34.3	12.0
Totals		370	4,259	4,626	182,676.9	167,627.7		39.5	5.8

Protected open space	Number	Hectares
Registered covenants	4,226	166,699.4
Approved covenants**	367	15,049.1
Formal agreements	33	928.3
Total**	4,626	182,676.9

Largest registered covenant — 21,910ha

Largest covenant approved this year — 2350ha

Average size of registered and approved covenants — 39ha

Altitude range — sea level to 2200m asl

Region with most registered covenants Northland — 668

Region with the largest area in registered and approved covenants Otago — 63,597ha

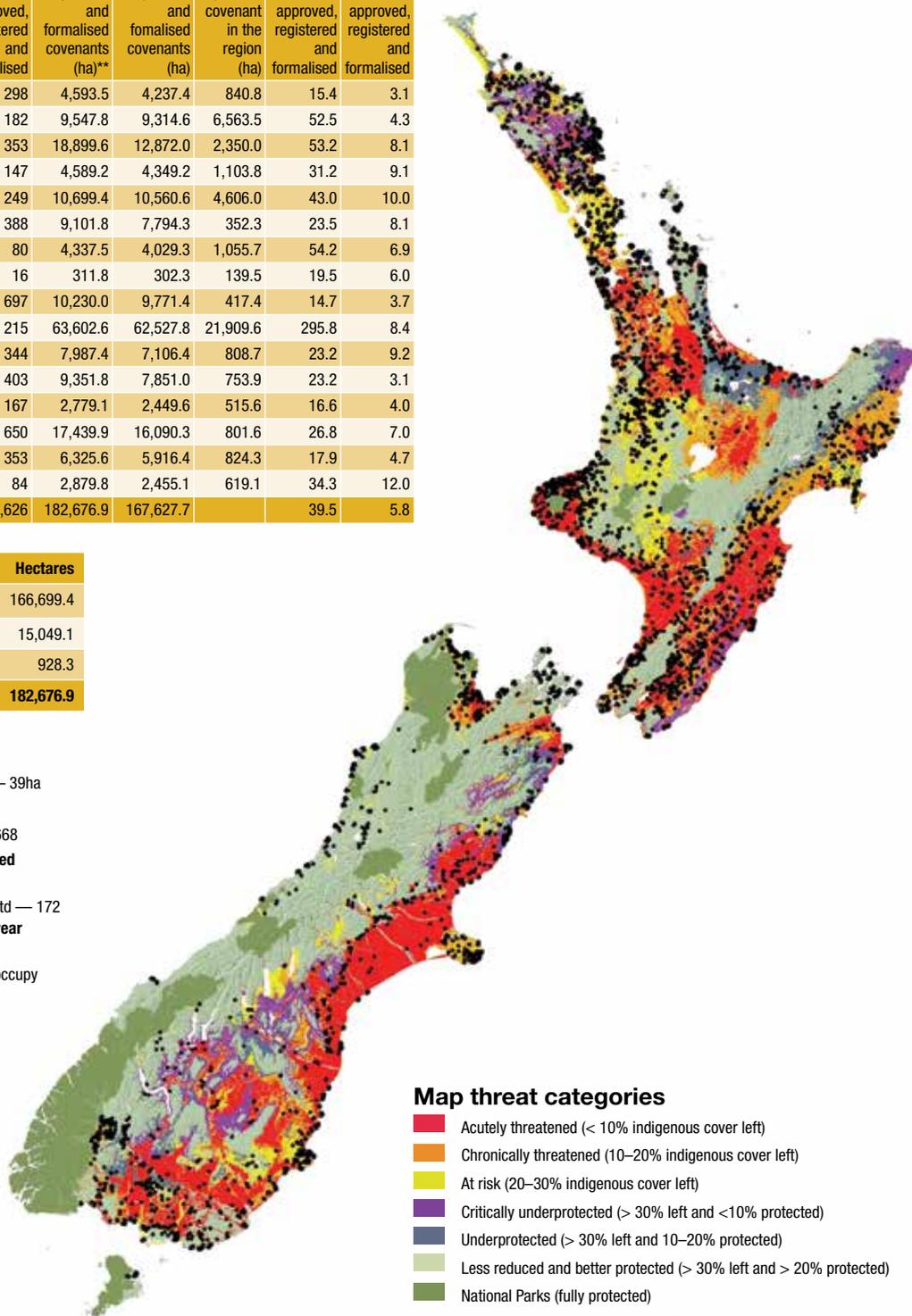
Organisation with most covenants Landcorp Farming Ltd — 172

Regional Council with most covenant approvals this year Northland and Taranaki — 15 each

National Trust-owned properties — 27 + 1 licence to occupy

*Formalised = a landscape protection agreement with a territorial authority (eg, district council) over land that has no legal title

**Areas are approximate as not all approved covenants have been formally surveyed

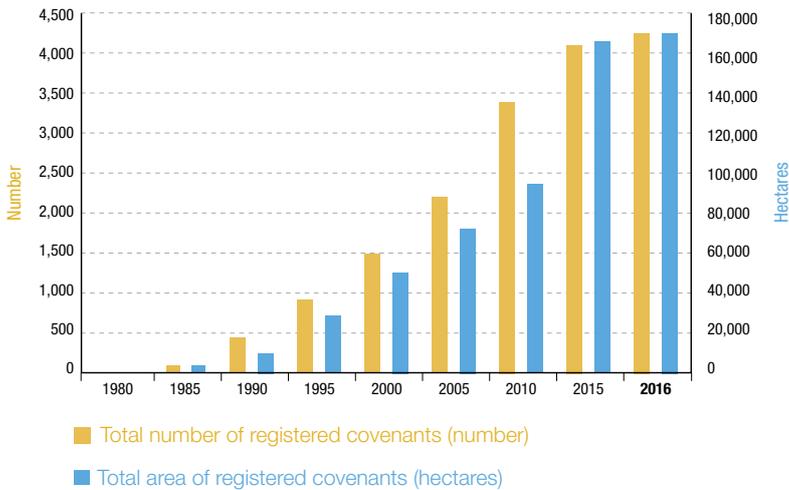


Map threat categories

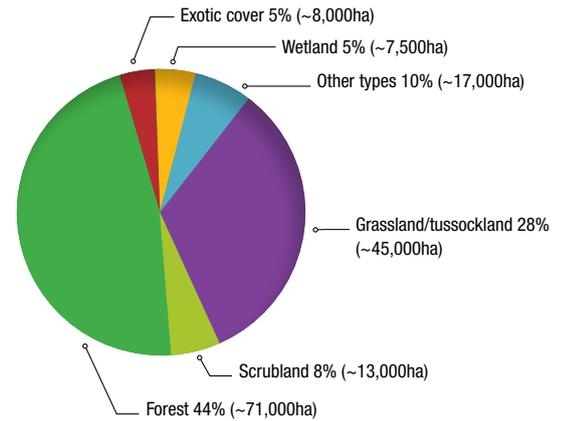
- Acutely threatened (< 10% indigenous cover left)
- Chronically threatened (10–20% indigenous cover left)
- At risk (20–30% indigenous cover left)
- Critically underprotected (> 30% left and < 10% protected)
- Underprotected (> 30% left and 10–20% protected)
- Less reduced and better protected (> 30% left and > 20% protected)
- National Parks (fully protected)
- Registered and approved National Trust covenants: dot represents location only and not actual area of covenanted land

Statistics continued

Registered covenants



Land cover type



Definitions:

Wetland

includes open water, reedland, rushland, sedgeland, and some flaxland.

Other types

includes shrubland, treeland, fernland, treefernland, boulderfield, gravelfield, herbfield, lichenfield, mossfield, peatfield, rockland, sandfield and other sites eg, cultural or archaeological

Exotic cover

e.g. pasture, amenities, exotic arboretums

Monitoring report summary

Total number of covenants monitored in 2015–2016	1907
Total number of covenants monitored that required attention at end of period ⁽¹⁾	237 (12%)

Breakdown of covenants that required attention in 2015–2016

	Number of covenants
Covenants with condition issues only	39
Covenants with legal compliance issues only	157
Covenants with both condition and legal compliance issues	39
Covenants with serious legal compliance issues	2
Total	237

Nature of issues requiring attention (some covenants have more than one issue requiring attention) ⁽²⁾

Issue	Number of covenants
Fencing and boundary issues	113
Weeds	103
Stock intrusion	53
Pests	44
Unapproved activities	16
Total	329

⁽¹⁾ An additional 92 covenants were identified as requiring attention during the reporting period but are not included in these tables because they have a landscape-wide problem (eg, an old man's beard infestation) that is beyond the control and ability of the landowner to reasonably manage. A coordinated regional approach involving all stakeholder organisations and landowners is needed to effectively manage such issues. The National Trust is committed to supporting this approach whenever it can.

⁽²⁾ Some covenants have more than one issue requiring attention. The National Trust has let landowners know about the issues and provided advice on how to best address them. Resolution timeframes will vary depending on the nature of the issues.

Statement of service performance

for the year ended 30 June 2016

The National Trust's operating expenditure for the reporting period was just over \$5 million. Eighty percent of this amount is funded by a government grant with the balance received from donations, funding bids, and other raised funds.

This statement measures the National Trust's performance against goals set in its 2015–2016 Memorandum of Understanding with the Minister of Conservation.

Covenancing process

Open space covenants protect a range of values including: ecological, visual, geological, archaeological, scientific, cultural, recreational, soil and water, and social interest. The area, size, and shape of covenants vary, as do the associated costs, so annual fluctuations in covenant statistics can be expected.

Covenant proposals are evaluated against set criteria such as ecological significance, national priorities for protecting rare and threatened native biodiversity on private land, connectivity to other protected places, sustainability of the site, and landowner motivation. When a proposal is approved, registration of the covenant on the land title is targeted to be complete within 2 years.

The covenancing process involves responding to landowner enquiries, evaluating and documenting proposals, assessing proposals for approval, preparing documentation for approved proposals, fencing, surveying, and registering covenants on land titles with Land Information New Zealand. Once registered, covenants are monitored on a regular basis.

Table 1 – The implementation of legal protection of natural and historic resources on private or leasehold land

Legal protection	2014/15 Actual		2015/16 Target		2015/16 Actual	
	Number	Hectares	Number	Hectares	Number	Hectares
Approved covenants	111	2386	110	3300	110	1926
Approved QCC covenants	-	-	8	-	11	816
Registered covenants	113	54,354	115	2500	118	3412

Table 2 – Monitoring numbers and hectares for registered covenants and National Trust-owned properties

Management Services	2014/15 Actual		2015/16 Target		2015/16 Actual	
	Number	Hectares		Hectares	Number	Hectares
National Trust-owned properties	27	1436	27	no target	27	1436
Monitored registered covenants	1743	42,477	1800	no target	1907	39,289

Table 3 – Other activities and statutory functions:

Other activities	2015/16 Target	2015/16 Actual
Percentage of new covenants approved (excluding QCC covenants) that secure protection of one or more of the four national priorities for biodiversity protection on private land and/or add to a protected corridor or protected landscape	90%	97%
Percentage of new QCC covenants approved that secure protection of one or more of the four national priorities for biodiversity protection on private land and/or add to a protected corridor or protected landscape	100%	100%
Number of covenants (including proposed covenants) identified each year and put forward as a priority for third-party support for protection/management	100	169
Number of regional covenantor events	4	6
Number of registered covenants where the National Trust has exercised functions as the statutory trustee. Functions include: requests for variations and activity approvals, Resource Management Act 1991 and related activity affecting covenants, significant covenant stewardship support, and compliance and enforcement action	300	465



Financial statements

for the year ended 30 June 2016

Approval of the financial statements

The Board of Directors has authorised the issue of the financial statements of Queen Elizabeth II National Trust set out on pages 26 – 37 for the year ended 30 June 2016.

For and on behalf of the Board of Directors, which authorised the financial report on 27 September 2016.

James Guild
Chair

Dated: 27 September 2016

Mike Jebson
Chief Executive

Dated: 27 September 2016

Statement of comprehensive revenue and expenditure

for the year ended 30 June 2016

	Note	2016 Actual \$	2016 Budget \$	2015 Restated Actual \$
Revenue				
Government grant		4,474,000	4,274,000	4,274,000
Contestable funds		474,693	400,000	466,126
Donations and other grants		169,928	67,000	357,438
Other revenue		54,816	41,250	313,455
Operating revenue		5,173,437	4,782,250	5,411,019
Expenditure				
Field operations		1,370,977	1,639,056	1,376,604
Covenants	1	8,529,948	1,176,000	976,454
Contestable funds		474,693	400,000	466,126
Administration	2	2,009,638	2,200,758	1,915,682
Property operations		104,401	56,642	26,946
Public relations		71,357	76,100	75,516
Depreciation and amortisation	3	91,282	85,000	99,323
Operating expenditure		12,652,296	5,633,556	4,936,651
Investment income		1,318,050	650,000	1,650,427
Investment expenses		412,505	48,000	61,019
Net investment income	4	905,545	602,000	1,589,408
Total comprehensive revenue and expenditure		(6,573,314)	(249,306)	2,063,776

Explanation of total comprehensive revenue and expenditure

The National Trust concluded the financial year ended 30 June 2016 with total comprehensive revenue and expenditure of (\$6,573,314) against a budgeted total comprehensive revenue and expenditure of (\$249,306).

The difference between budgeted and actual total comprehensive revenue and expenditure results primarily from the National Trust's decision to change the accounting treatment in relation to its contractual obligation, in some covenant agreements entered into before 1995, to contribute to the cost of replacing fences in perpetuity. On 30 June 2016 this obligation was recognised on the Statement of Financial Position as a provision liability of \$7,646,000 with the initial recognition expense of the same amount being included in Statement of Comprehensive Revenue and Expenditure. Refer to Note 12 for further information.

Previously this obligation was only disclosed as a contingent liability in the Notes to the Financial Statements.

Statement of changes in equity

for the year ended 30 June 2016

	Note	2016 Actual \$	2016 Budget \$	2015 Restated Actual \$
At beginning of period		17,632,728	17,632,728	15,568,952
Total comprehensive revenue and expenditure		(6,573,314)	(249,306)	2,063,776
At end of period		11,059,414	17,383,422	17,632,728

Statement of financial position

as at 30 June 2016

	Note	2016 Actual \$	2015 Restated Actual \$
Equity			
National Trust equity		11,059,414	17,632,728
Total equity		11,059,414	17,632,728
Represented by:			
Current assets			
Cash and cash equivalents		1,333,769	796,399
Accounts and other receivables	5	629,942	230,108
Prepaid expenses		0	26,351
Investments	6	14,928,991	14,421,644
Total current assets		16,892,702	15,474,502
Less current liabilities			
Accounts and other payables	7	622,279	512,747
Deferred revenue	8	558,006	416,588
Employee entitlements		90,720	50,175
Pre-1995 fencing provision	12	105,000	0
Other current liabilities		91,250	91,250
Total current liabilities		1,467,255	1,070,760
Working capital		15,425,447	14,403,742
Non-current assets			
Accounts receivable	5	100,000	150,000
Property, plant and equipment	9	2,957,044	2,935,273
Intangible assets	11	117,923	143,713
Total non-current assets		3,174,967	3,228,986
Non-current liabilities			
Pre-1995 fencing provision	12	7,541,000	0
Total non-current liabilities		7,541,000	0
Net assets		11,059,414	17,632,728

Statement of cash flows

for the year ended 30 June 2016

	2016	2015
	Actual	Actual
	\$	\$
Cash flows from operating activities		
Receipts from operations	4,668,470	4,717,787
Donations and bequests received	169,928	357,438
Interest received	428,919	414,847
Dividends received	252,108	259,104
Other revenue received	54,816	113,455
Payments to suppliers	(3,410,371)	(3,799,203)
Payments to employees	(1,215,572)	(1,110,938)
Net cash flow from operating activities	948,298	952,490
Cash flows from investing activities		
Proceeds from sale of financial instruments	3,173,922	-
Purchase of financial instruments	(3,496,281)	(782,675)
Purchase of property, plant and equipment	(64,844)	(48,574)
Purchase of intangible assets	(23,725)	-
Net cash flows used in investing activities	(410,928)	(831,249)
Net cash flows from/(used in) financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	537,370	121,241
Cash and cash equivalents at beginning of period	796,399	675,158
Cash and cash equivalents at end of period	1,333,769	796,399

Statement of commitments

as at 30 June 2016

Covenant commitments

Covenant commitments are funds committed to approved covenants still in progress and working towards registration with Land Information New Zealand.

2016	2015
\$	\$
3,424,468	4,131,034

Operating lease commitments

A new head office lease agreement was signed on 24 February 2012 and commenced on 7 May 2012. The annual rent is \$80,000 plus outgoing expenses. The term of the lease is 9 years with a rent review every 3 years.

Less than 1 year
Between 1 and 2 years
More than 2 years

2016	2015
\$	\$
80,000	80,000
80,000	80,000
226,670	306,670
386,670	466,670

Property endowment commitments

The National Trust holds \$348,635 in property endowments that have been received for specific properties owned by the National Trust (2015: \$348,635).

Covenant endowments

The National Trust holds \$1,709,509 in covenant endowments that have been received for specific covenants (2015: \$1,709,509).

Capital commitments

The National Trust has no capital commitment as of 30 June 2016 (2015: nil).

Statement of contingencies

as at 30 June 2016

The National Trust has no contingent liabilities as at 30 June 2016.

Previously the National Trust disclosed a contingent liability for fencing replacement contributions (2015: \$8,841,388). The contractual obligation, in some covenant agreements entered into before 1995, to contribute to the cost of replacing fences in perpetuity has now been recognised as a provision on the Statement of Financial Position as at 30 June 2016. Refer to Note 12 for further information.

Notes to the financial statements

for the year ended 30 June 2016

Accounting policies

Reporting entity

Queen Elizabeth the Second National Trust (the National Trust) is a registered charitable entity that is domiciled in New Zealand and governed by the Queen Elizabeth the Second National Trust Act 1977.

The principal activity of the National Trust is to provide, protect, preserve and enhance open space for the benefit and enjoyment of the people of New Zealand.

The financial statements of the National Trust for the year ended 30 June 2016 were authorised for issue by the Board on 27 September 2016.

Statement of compliance

The financial statements have been prepared in accordance with Queen Elizabeth the Second National Trust Act 1977 which requires compliance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP").

As the primary objective of the National Trust is to protect special places for the benefit of present and future generations, rather than making a financial return, the National Trust is a public benefit entity for the purpose of financial reporting.

The financial statements of the National Trust have been prepared in accordance with Tier 2 Public Benefit Entity ("PBE") standards and disclosure concessions have been applied. The National Trust is eligible to report in accordance with Tier 2 PBE standards because it does not have public accountability and its expenditure is between \$2m and \$30m and therefore not considered large in accordance with XRB A1 Accounting Standards Framework.

Measurement base

The financial statements have been prepared on a historical cost basis, except for investments which have been measured at fair value.

The financial statements are presented in New Zealand dollars.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Capital management

The National Trust's capital is represented by its net assets. It manages and maintains its capital by prudently managing revenue, expenditure, and assets and liabilities to ensure it effectively achieves its objectives and purpose, while still remaining a going concern.

Revenue

National Trust revenue is mainly from non-exchange transactions.

Grants revenue from Government or government agencies – grants revenue is recognised as it becomes receivable, except where a grant is for a specific purpose and there is a legal obligation to repay it if the specific purpose is not undertaken. In this situation, revenue is deferred until the obligations are performed.

Interest and dividend revenue (investment income) – interest income is recognised as earned; dividend income is recognised when the right to receive payment is established.

Donations and other grants revenue – cash donations are recognised when received; non-cash donations are recognised at their fair value at the time that ownership rights are transferred to the National Trust.

Membership/sponsorship revenue – membership/sponsorship revenue is recognised when the cash is received.

Other revenue – recognised as earned.

Property, plant and equipment

Land and improvements acquired or gifted to the National Trust are recorded at cost for acquired assets, or at fair value for gifted assets.

The cost of new fencing on National Trust properties is capitalised in the year of completion.

Property, plant and equipment (other than land) is measured at cost, less accumulated depreciation and impairment losses.

Land is not depreciated.

Restrictions on assets

The only restrictions on assets held by the National Trust are those pertaining to covenants and specific gifts.

Notes to the financial statements

for the year ended 30 June 2016

Accounting policies (continued)

Depreciation

Depreciation is charged on a straight-line basis over the useful life of the asset. Depreciation is charged at rates calculated to allocate the cost of the asset less any estimated residual value over its remaining useful life:

Computer and electronic equipment	3 years
Intangible assets	5 years
Furniture and fittings, plant and equipment	10 years
Improvements (gifted and purchased buildings)	25 years
Land fencing	40 years
Buildings	50 years

Employee entitlements

Short-term employee entitlements: Employee entitlements that the National Trust expects to be settled within 12 months of balance date are measured at undiscounted nominal values based on accrued entitlements at the current rate of pay. These include salaries and wages accrued up to balance date and annual leave earned, but not yet taken at balance date.

Provisions

Provisions are recognised when the National Trust has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the Statement of Comprehensive Revenue and Expenditure.

Goods and services tax

All amounts are shown exclusive of goods and services tax (GST), except where receivables and payables are stated as GST inclusive.

Financial instruments

Non-derivative financial instruments comprise investments, accounts and other receivables, cash and cash equivalents, accounts and other payables, and other current liabilities.

Non-derivative financial instruments are recognised at fair value. Financial instruments not at fair value are recognised through the Statement of Comprehensive Revenue and Expenditure, with transaction costs attributable to the acquisition.

A financial instrument is recognised if the National Trust becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if our contractual rights to the cash flows from the financial asset expire or if we transfer the financial asset to another party without retaining control or retaining substantially all risks and rewards of the asset.

The National Trust holds a significant level of bonds and shares as investments. These financial assets are designated upon initial recognition by the National Trust as at fair value through the Statement of Comprehensive Revenue and Expenditure. Subsequent to initial recognition, financial instruments at fair value through the Statement of Comprehensive Revenue and Expenditure are measured at fair value, and changes therein are recognised in the Statement of Comprehensive Revenue and Expenditure. Fair value is quoted at market value at balance date.

Cash and cash equivalents include cash on hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition.

Accounts and other receivables are classified as loans and receivables and are recognised at amortised cost using the effective interest method less impairment. Accounts and other payables and other current liabilities are classified as other liabilities and are carried at amortised cost using the effective interest method.

Foreign currency

Transactions in foreign currencies are translated at the rates on the date of the transaction. Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at balance date, are translated to NZD at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation are recognised in the Statement of Comprehensive Revenue and Expenditure.

Notes to the financial statements

for the year ended 30 June 2016

Accounting policies (continued)

Financial risk management

The National Trust's principal financial instruments comprise cash and cash equivalents, bonds and shares held as part of its normal operations. The National Trust has a policy to only invest in highly liquid investments with a Standard & Poor's or equivalent rating of 'AAA to BBB+'. Equities must be recommended by a registered financial planner or be a recognised investment fund for use by charitable trusts.

The National Trust has various other financial instruments such as receivables and payables, which arise directly from its operations.

Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are charged as expenses in the periods in which they are incurred.

Commitments

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Contingent liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

Budget figures

The budget figures shown in the financial statements are those that were approved by the Board of Directors.

Comparative year figures

Some comparative year figures have been reclassified to be consistent with their classification in 2016.

Correction of an error

A receivable of \$200,000 was not recognised as at 30 June 2015 as it was due in instalments over a five year period.

As there is no obligation for the National Trust to repay the money, the correct treatment would have been to recognise the full amount as revenue in the year ended 30 June 2015. As a consequence, revenue and assets were both understated.

The error was corrected by restating each of the affected financial statement items for the year ended 30 June 2015, as shown below:

Impact on the statement of comprehensive revenue and expenditure:

Increase in other revenue

Net impact on total comprehensive revenue and expenditure

2015

\$

200,000

200,000

Impact on changes in equity:

Increase in net impact on total comprehensive revenue and expenditure

Total impact on net assets/equity

2015

\$

200,000

200,000

Impact on the statement of financial position:

Increase in accounts receivable

Total impact on net assets

2015

\$

200,000

200,000

Notes to the financial statements

for the year ended 30 June 2016

1. Covenants

Covenant expenditure relates to fencing, survey, and legal costs incurred on approved covenants as they progress towards registration.

	2016	2015
	\$	\$
Fencing	8,132,658*	609,157
Survey	386,713	352,119
Weed and pest control	7,577	12,432
Revegetation	3,000	2,746
Total covenants expenditure	8,529,948	976,454

* A one-off expense of \$7,646,000 was recognised in the year ending 30 June 2016 following the National Trust's decision to change the accounting treatment in relation to its contractual obligation, in some covenant agreements entered into before 1995, to contribute to the cost of replacing fences in perpetuity. Refer to Note 12 for additional information.

2. Administration

Administration expenditure includes:

	2016	2015
	\$	\$
Directors' fees	29,309	28,779
Remuneration of four key management personnel	545,992	523,265
Audit fees	29,950	29,200
Other expenses paid to auditors	0	5,000
Rental expenses	93,323	86,012
Doubtful debts	3,104	0
Loss on disposal of property, plant and equipment	1,306	1,257
Other administration expenses	1,306,654	1,242,169
Total administration expenditure	2,009,638	1,915,682

3. Depreciation and amortisation

Depreciation has been charged on the following classes of asset:

	2016	2015
	\$	\$
Furniture and fittings, plant and equipment, computer and electronic equipment	25,834	40,149
Improvements	14,838	12,969
Fencing	1,095	582
Amortisation has been charged on:		
Intangible assets	49,515	45,623
Total depreciation and amortisation expenditure	91,282	99,323

Notes to the financial statements

for the year ended 30 June 2016

4. Net investment income

	2016 \$	2015 \$
Investment income includes:		
Interest	502,891	390,692
Dividends	252,108	259,104
Realised gain	171,898	31,843
Unrealised gain	391,153	968,788
Total investment income	1,318,050	1,650,427
Investment expenditure includes:		
Investment fees	34,441	45,124
Realised loss	45,269	15,895
Unrealised loss	332,795	0
Total investment expenditure	412,505	61,019
Net investment income	905,545	1,589,408

Investment income comprises interest, dividend income, and changes in the fair value of financial assets at fair value through the Statement of Comprehensive Revenue and Expenditure and foreign currency gains.

Investment expenses comprise foreign currency losses and changes in the fair value of financial assets at fair value through the Statement of Comprehensive Revenue and Expenditure.

Investment expenses also include any fees and transaction costs associated with maintaining the investment portfolio.

5. Accounts and other receivables

	2016 \$	2015 Restated \$
Accounts receivable	626,924	361,915
Less: Provision for doubtful debts	(3,104)	0
	623,820	361,915
Interest receivable	92,165	18,193
GST receivable	13,957	0
Total accounts and other receivables	729,942	380,108

6. Investments

Details of investments are as follows:

	2016 \$	2015 \$
Fixed interest - corporate bonds	7,585,335	7,692,631
Term deposits	914,600	200,000
Australian/NZ equities	4,541,800	4,251,950
International equities	1,887,256	2,277,063
Total investments	14,928,991	14,421,644

The market value at 30 June 2016 was \$14,928,991 (2015: \$14,421,644), which includes interest receivable of \$78,296 (2015: \$82,622).

Notes to the financial statements

for the year ended 30 June 2016

7. Accounts and other payables

	2016 \$	2015 \$
Accounts payable	593,795	416,006
Accrued trade expenses	28,484	96,741
Total accounts and other payables	622,279	512,747

8. Deferred revenue/contestable funds

Funds have been approved for specific projects as stated in the project deeds. Some projects may take a year or more to complete. At the end of each financial year, money received for projects which has not been spent for the designated purpose and which has a return obligation if unspent is reported as deferred revenue.

Total deed amount \$	Project income to date \$	Deferred revenue 2016 \$	Deferred revenue 2015 \$
2,297,618	1,727,753	558,006	416,588

Deferred revenue comprises:

- 42 individual projects from four contestable fund rounds from the Biodiversity Condition and Advice Fund (20 projects completed, and 21 in progress)
- 7 individual projects from Community Conservation Partnership Fund (1 project completed and 6 in progress)
- 4 individual projects from Lotteries Environment and Heritage Fund (all active)
- 30 individual projects from Regional Council Funds

9. Property, plant and equipment

	2016				
	Land \$	Improvements \$	Fencing \$	Other \$	TOTAL \$
Cost at beginning of the year	2,571,501	503,014	88,195	227,244	3,389,954
Accumulated depreciation	0	(229,950)	(65,446)	(159,285)	(454,681)
Net book value at beginning of the year	2,571,501	273,064	22,749	67,959	2,935,273
Acquisitions	0	0	0	64,844	64,844
Disposals *	0	0	0	(1,306)	(1,306)
Depreciation	0	(14,838)	(1,095)	(25,834)	(41,767)
Net book value at end of the year	2,571,501	258,226	21,654	105,663	2,957,044
Cost at end of the year	2,571,501	503,014	88,195	281,613	3,444,323
Accumulated depreciation	0	(244,788)	(66,541)	(175,950)	(487,279)
Net book value at end of the year	2,571,501	258,226	21,654	105,663	2,957,044

* Disposals are reported net of accumulated depreciation.

Other assets consist of furniture and fittings, plant and equipment, computer and electronic equipment.

Notes to the financial statements

for the year ended 30 June 2016

10. Land and improvements

	2016 \$	2016 \$	2016 \$	2015 \$
	Land	Improvements	Total	Total
Aroha	425,000	238,109	663,109	676,830
Awapikopiko Reserve	42,000	0	42,000	42,000
Bowman's Bush	63,000	0	63,000	63,000
Dunns Bush	150,000	0	150,000	150,000
Ernest Morgan Forest Reserve	140,000	0	140,000	140,000
Hann Bush	18,000	0	18,000	18,000
Hartree Forest	0	0	0	0
L'Anson Reserve	434,000	0	434,000	434,000
Ira Menzies Duneland	250,000	0	250,000	250,000
Mara Point	80,000	0	80,000	80,000
Maungaruahine Bush	74,000	0	74,000	74,000
Miro Bay	100,000	0	100,000	100,000
Mokotahi Hill	9,000	0	9,000	9,000
Parkinson's Bush	143,000	0	143,000	143,000
Pouawa Sandhills	66,000	0	66,000	66,000
Robbs Bush	33,500	0	33,500	33,500
Robert Houston Memorial Reserve	50,000	0	50,000	50,000
Sheps Park	1	0	1	1
Snells Bush	36,000	0	36,000	36,000
Spencer Reserve	16,000	0	16,000	16,000
Sunset Bay	45,000	0	45,000	45,000
Tata Headland	17,000	0	17,000	17,000
Taupo Swamp	98,000	0	98,000	98,000
Te Harakiki Swamp	32,000	0	32,000	32,000
Tokatea	110,000	20,117	130,117	131,234
Tumutumu Bush	115,000	0	115,000	115,000
Waiata Bush	25,000	0	25,000	25,000
	2,571,501	258,226	2,829,727	2,844,565
Lake Wainamu (vested)	0	0	0	0
Total land and improvements	2,571,501	258,226	2,829,727	2,844,565

All land (including improvements) is subject to restrictions on use as set out in the original deeds of gift or covenant.

11. Intangible assets

	2016 Software \$
Cost at beginning of the year	231,755
Accumulated amortisation	(88,042)
Net book value at beginning of the year	143,713
Acquisitions	23,725
Amortisation	(49,515)
Net book value at end of the year	117,923
Cost at end of the year	255,480
Accumulated amortisation	(137,557)
Net book value at end of the year	117,923

Intangible assets consist mainly of the National Trust's web-based covenant management system developed to improve the covenanting process.

Notes to the financial statements

for the year ended 30 June 2016

12. Pre-1995 fencing provision

	2016	2015
	\$	\$
Provision at the beginning of the year	0	0
Initial recognition	7,646,000	0
Provision at the end of the year	7,646,000	0

The initial recognition is calculated at 30 June 2016 and there were no amounts utilised during the current financial year.

The National Trust has a liability to contribute to fencing in perpetuity in some covenants agreed before 1995.

The fences are mostly maintained by landowners on a day-to-day basis. It is the National Trust's objective to reduce this liability over time.

Based on history and expectations there will be some level of costs to meet these covenants each year for the foreseeable future.

Historically this liability has been reported as a contingent liability. The treatment has changed as the Board is satisfied that a reasonable estimate of the liability can be calculated.

A report to quantify a reasonable estimate of the liability has been prepared by Deloitte Actuarial Services - recognised experts in this area.

The main areas of uncertainty in the calculation of the reasonable estimate are:

- 1) Fence lifetime (currently assumed to be 40 years) and the timing of replacement of particular lengths of fencing
- 2) Cost of fencing (currently \$17.84 per metre)
- 3) The discount rate (currently using the risk-free discount rates yield curve for accounting valuation purposes published by the Treasury)
- 4) The fencing assumption - the percentage of those fences where the National Trust has a contractual obligation to contribute to replacement cost, which the National Trust expect will need replacing, and where the landowner will ask the National Trust to contribute to the cost of replacing the fence (currently an assumption of 37.5% has been adopted based on a probability weighting)

Effectively the calculation estimates the costs each year in the future then discounts the cost back to 30 June 2016 to reflect what the final cost will be in today's dollars.

The estimate cannot take into account expected dedicated future funding to this liability so the net costs to the organisation are likely to be lower.

It is expected that much of the National Trust's investment portfolio will be used to fund the liability.

Sensitivity analysis

If the discount rate utilised increased/decreased by 1% from the National Trust's estimates, with all other factors held constant, it would result in a decrease/increase in the liability of \$840,000/\$1,167,000 and a decrease/increase in the covenants expenditure and increase/decrease in equity by the same amount.

If the fencing assumption increased/decreased by 7.5% from the National Trust's estimates (to 45% or 30% respectively), with all other factors held constant, it would result in an increase/decrease in the liability of \$1,530,000/\$1,529,000 and a increase/decrease in the covenants expenditure and decrease/increase in equity by the same amount.

INDEPENDENT AUDITOR'S REPORT
TO THE READERS OF
QUEEN ELIZABETH THE SECOND NATIONAL TRUST'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of Queen Elizabeth the Second National Trust (the Trust). The Auditor-General has appointed me, Marcus Henry, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Trust on her behalf.

Opinion

We have audited the financial statements of the Trust on pages 26 to 37, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Trust:

- present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards with disclosure concessions.

Our audit was completed on 27 September 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Trust's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Directors;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also, we did not evaluate the security and controls over the electronic publication of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Directors

The Directors are responsible for the preparation and fair presentation of financial statements for the Trust that comply with generally accepted accounting practice in New Zealand and Public Benefit Entity Standards with Reduced Disclosure.

The Directors' responsibilities arise from section 32 of the Queen Elizabeth the Second National Trust Act 1977.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Directors are also responsible for the publication of the financial statements, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Trust.



Marcus Henry
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand



QEII National Trust
Open Space New Zealand
Ngā Kairauhi Papa