



The background of the cover features a close-up, slightly blurred photograph of green fern fronds, creating a natural and organic feel.

QUEEN
ELIZABETH II
NATIONAL
TRUST
**ANNUAL
REPORT**
2017



ANNUAL REPORT 2017 OF QUEEN ELIZABETH II NATIONAL TRUST (THE NATIONAL TRUST) / NGA KAIRAUHĪ PĀPA. 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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AON New Zealand

QUEEN ELIZABETH II NATIONAL TRUST

ANNUAL REPORT 2017

CONTENTS

Chair's report	4
Chief Executive's report	5
Who we are	6
What we do	10
Our role	12
Partnership with landowners	14
Working with others	16
Covenant management	18
The Stephenson Fund	19
Partnerships	20
Covenants supporting biodiversity protection	22
Covenant statistics	26
Statement of service performance	28
Financial statements	29
Statement of comprehensive revenue and expenditure	30
Statement of changes in equity	31
Statement of cashflows	32
Statement of commitments	33
Notes to the financial statements	34
Auditors report	42

After 40 years the QEII National Trust can truly say it has reached maturity. We can look back with satisfaction at what we've achieved over four decades in registering nearly 4,400 covenants protecting landscapes and biodiversity throughout the country. This is also a good time to look ahead to ensure we are doing everything we can to help the growing number of landowners who want to protect their natural treasures.

When the National Trust was gazetted in 1977, the conventional government thinking was dominated by a focus on land development underpinned by subsidies, cheap loans and the Think Big projects. But at the same time, a group of visionary landowners realised New Zealand had a responsibility to look after our biodiversity, landscapes and places with cultural and social value. The nation owes those pioneers a huge debt for the part they played in changing the way we view our natural environment.

The principle of creating covenants in perpetuity was controversial when the National Trust was founded but the decision has been vindicated and is now one of the major advantages in the eyes of landowners. They know the special places they treasure can be protected forever under a National Trust covenant.

Recently rural landowners and farmers in particular have often become the target of negative publicity over environmental issues but we do not hear enough about the landowners who are protecting nature by placing covenants on their land. They deserve to be celebrated for their contribution to conservation and the sacrifices in money and time they make as shown in a Waikato University report for the National Trust this year.

The 'Investment in Covenanted Land Conservation' report released in May quantified the contributions our covenantors make for the nation's benefit. In the National Trust's four decades, these landowners have made an estimated financial commitment worth between \$1.1 and \$1.3 billion to protect these special places.

Every year they spend \$25 million managing their protected land and for every dollar of government funding for the National Trust, covenantors contribute \$14, including \$7 in direct investment in protection and \$7 in foregone income from the land.

It's worth remembering some of our most threatened animal and plant species are found on privately-owned land. The National Trust's covenants are protecting species including the nationally critical kakī or black stilt, the world's rarest penguin the hoiho or yellow-eyed penguin, and New Zealand's rarest kiwi, the rowi. The growing awareness of threats facing our natural environment – including climate change, biodiversity loss and freshwater issues – has grown to the point where we may be reaching a tipping point in land management in New Zealand. The National Trust is uniquely placed to play a bigger role in helping improve our country's environmental record.

As part of our strategy of lifting our profile, the National Trust has undertaken a review of its image and branding that will be released in late 2017. This is not an exercise in window dressing, but is more about ensuring the Trust is relevant and properly resourced for the future. We need to be recognised as a crucial part of environmental protection nationally and overcome any lingering perceptions of the Trust as having rural significance only.

Another strand of our strategy is establishing new partnerships and alliances, so the work of both our landowners and our partners can be leveraged for the national good. One of those important growing linkages is local government, which can play an important role in assisting landowners manage their land with funding and expertise. This has not always been easy because of the wide variation in practices by different councils but we are establishing memoranda of understanding with individual councils as a way forward.

The decision in January of Governor-General Dame Patsy Reddy to accept our invitation to be our patron is a vote of confidence in the work of the National Trust. Dame Patsy, a former covenant owner, attended the opening of the Queen's Commonwealth Canopy initiative at Waiau in North Canterbury in November last year.

The 2015/16 board remains unchanged in the new financial year following the reappointment of Bruce Wills and myself. I want to thank board members and staff for their work during the past year and know they will continue to serve the trust with passion as we build on past successes.

Our covenantors have built a terrific legacy over the last 40 years and we should celebrate everything they have achieved. Those of us directing the Trust should aspire to exercise the same vision and courage that they have shown as we embark on the next 40 years.



James Guild
Chair



In our 40th year the National Trust has picked up the pace on numbers of new covenant approvals and registrations from our long-term average of registering two covenants every week. This year we registered 120 covenants and another 125 were approved, taking the total amount of protected land (registered and approved) to over 180,000 ha and close to the milestone of 4,400 registered covenants.

We were able to accelerate our work this year on new covenants because of special government funding from the Queen's Commonwealth Canopy initiative. This programme to celebrate Her Majesty Queen Elizabeth II's leadership of the Commonwealth, helped us meet rising demand from landowners who want to protect important natural areas.

Under our quality targets, 90% of new covenants must meet one or more of four national priorities for biodiversity protection on private land or add to a protected corridor or landscape. This year we achieved 98%, with the remainder covering important non-biodiversity sites – a significant site in the Hawke's Bay and a landscape on the shores of Lake Taupo.

It is encouraging to know the National Trust's policies and operations are being recognised for helping landowners protect their special native species, habitats and landscapes. A report, 'Last Line of Defence' commissioned by the Law Foundation as part of a wide-ranging review of New Zealand environmental law and agencies, described the National Trust's covenant scheme as the most transparent and comprehensive in the country and its systems and processes as exemplary. The important role of covenants in protecting our unique native bird species and the habitats on which they depend was also acknowledged this year by the Parliamentary Commissioner for the Environment in her report 'Taonga of an Island Nation: Saving New Zealand's Birds'.

We are determined to protect the integrity of our covenant scheme by honouring the intentions of the original landowners to protect their covenanted land forever. Ownership changes are becoming more common, with around 300 properties with covenants changing hands each year. Most new landowners quickly become enthusiastic guardians but that is not always the case.

As a Trust focused on working in partnership with our covenantors, our preference is to resolve covenant issues through dialogue wherever possible. Occasionally we must defend covenants in court against new landowners who want to overturn covenant protection or who have damaged covenant values. Court action is costly and time-consuming for the National Trust, but we are committed to supporting the intentions of our covenantors. Last year we reported a Court of Appeal victory against a property developer following a series of court hearings to defend a Coromandel covenant. The developer has lodged an appeal in the Supreme Court, which we expect to be heard in early 2018, and we also expect to be defending another covenant in the High Court early next year.

The National Trust recognises the huge commitment landowners are making in ongoing management of their covenants in the face of external threats such as weeds, pests and adverse events. Annual expenditure by land owners on managing covenants is currently in the order of \$25 million. Sometimes challenges arise that are beyond their financial or physical means. In May we launched the Stephenson Fund for Covenant Enhancement to help covenantors planning strategically important enhancement projects or dealing with natural disasters or other extreme circumstances.

The contestable Fund, which commemorates founding covenantors Gordon and Celia Stephenson, is drawn from our internal resources, including donations, bequests and investment income. Successful applicants can receive up to 50% of the total costs of their projects up to a maximum of \$20,000. Initially a minimum of \$150,000 will be set aside annually but we will be seeking donations and sponsorship to grow it and will be increasing this funding as resources allow.

One of the biggest problems covenantors face is weed invasions. We continued working with Weedbusters NZ this year on a joint three-year programme funded by the Department of Conservation's Community Conservation Partnership Fund to support voluntary weed control efforts on covenanted and other land. The National Trust's accounts show an improved position compared with last year, although I should point out this is largely due to technical factors. We recorded unrealised gains in our investment portfolio as well as a change to the discount rate used to estimate our future liabilities for fencing costs. Both unrealised investment income and the discount rate can fluctuate, impacting on our operating results.

As the number of covenants grows, the demands on staff and regional representatives continue to rise. As a result, we appointed two new regional representatives in Taranaki and Auckland during the year to add to our national network.

I would like to thank our regional representatives and staff for their professionalism in supporting the aspirations of our covenantors. These landowners especially deserve our gratitude for making a huge investment over the past 40 years to preserve New Zealand's natural heritage.



Mike Jebson
Chief Executive





WHO WE ARE
**QE II NATIONAL
TRUST PARTNERS
WITH PRIVATE
LANDOWNERS
TO FOREVER
PROTECT NATURAL
AND CULTURAL
HERITAGE SITES ON
THEIR LAND WITH
COVENANTS**

-



Who we are

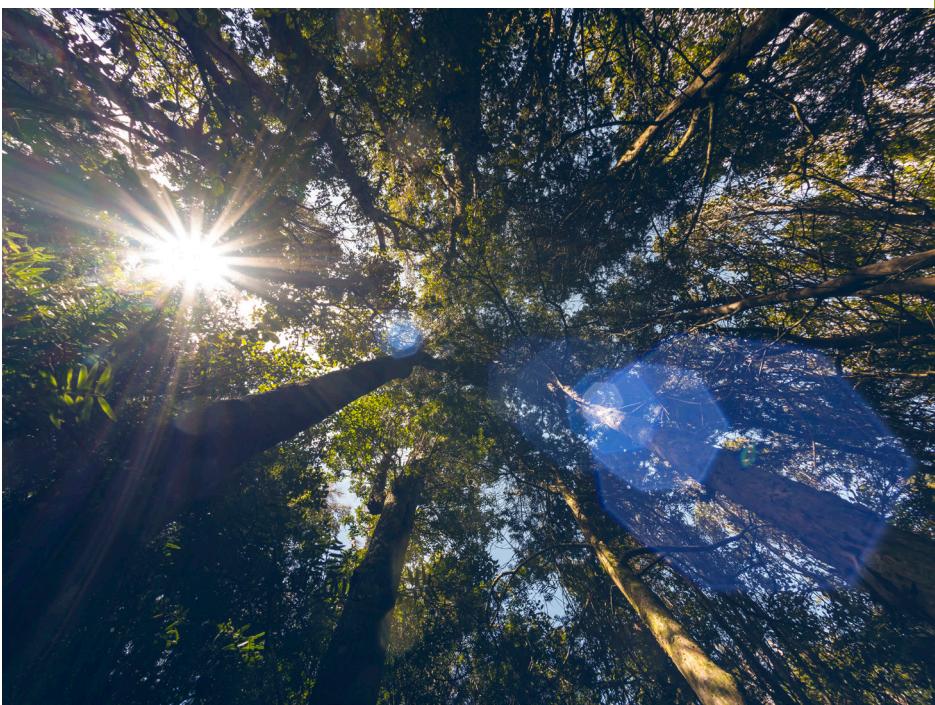
The QEII National Trust was formally established by farmers as a registered charity and independent statutory organisation in 1977 at a time when government subsidies and loans were encouraging the clearance of bush and wetlands on farms. These visionaries wanted to legally protect forever the remaining patches of bush and wetlands on their land while retaining ownership.

One of the key founders of the National Trust, the late Gordon Stephenson, said one of the strengths of the covenanting process was that it is voluntary. Landowners would register covenants "simply because of a conviction that it is the right thing to do" and would act as guardians, demonstrating "true kaitiakitanga in action".

The National Trust is headed by a board of directors and 16 staff members are based in Wellington. Landowners are supported by 27 regional representatives around the country.

The annual operating budget is around \$5 million a year, of which about 80 % is a government grant funded through the Department of Conservation.

The remainder comes from donations, membership subscriptions, contestable funding and other grants.

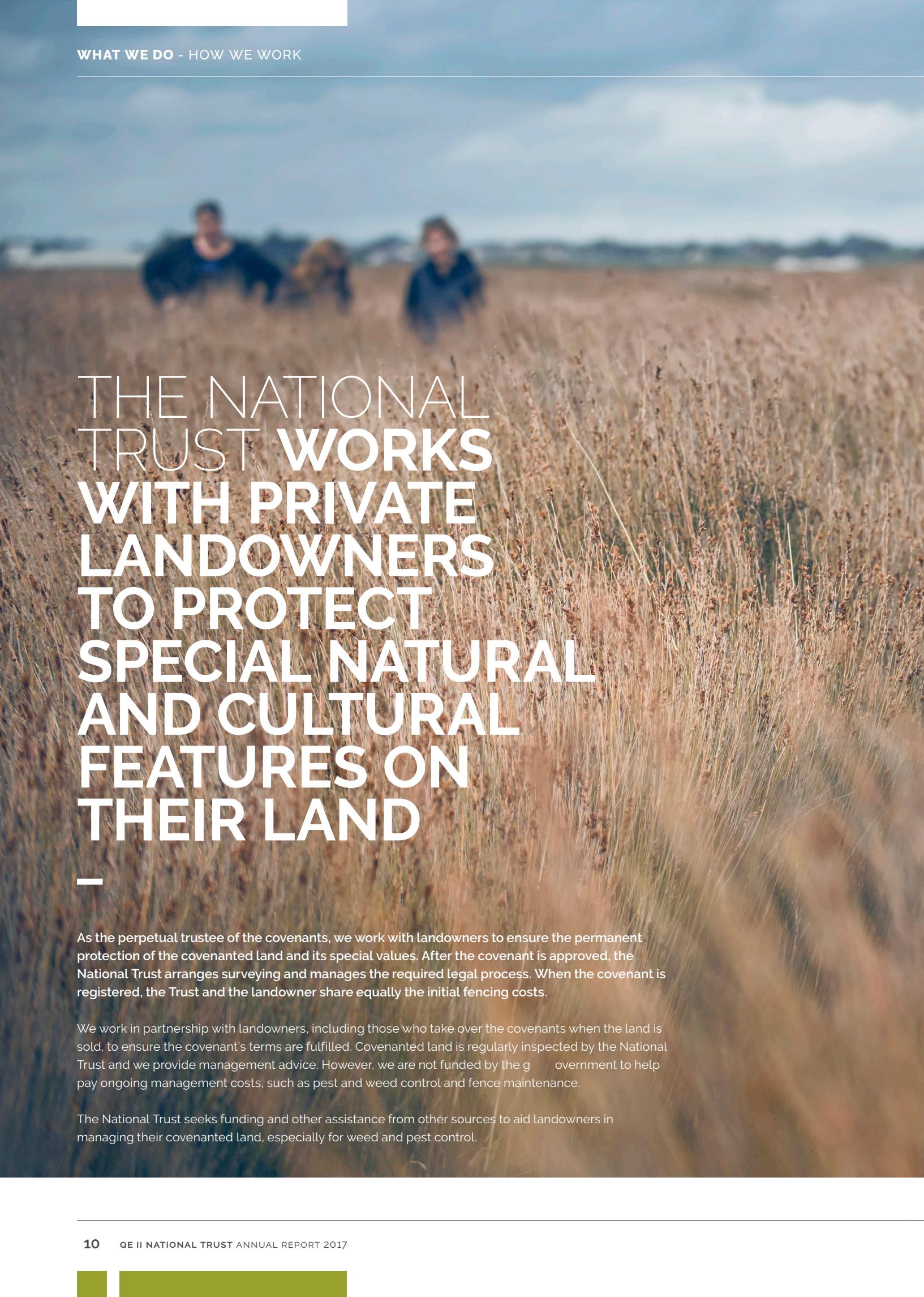


ABOVE
Sun shining through canopy in Southland bush.

BELOW
Sphagnum moss on Munro covenant, Southland.

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**



THE NATIONAL TRUST WORKS WITH PRIVATE LANDOWNERS TO PROTECT SPECIAL NATURAL AND CULTURAL FEATURES ON THEIR LAND

As the perpetual trustee of the covenants, we work with landowners to ensure the permanent protection of the covenanted land and its special values. After the covenant is approved, the National Trust arranges surveying and manages the required legal process. When the covenant is registered, the Trust and the landowner share equally the initial fencing costs.

We work in partnership with landowners, including those who take over the covenants when the land is sold, to ensure the covenant's terms are fulfilled. Covenanted land is regularly inspected by the National Trust and we provide management advice. However, we are not funded by the government to help pay ongoing management costs, such as pest and weed control and fence maintenance.

The National Trust seeks funding and other assistance from other sources to aid landowners in managing their covenanted land, especially for weed and pest control.



ABOVE
Neve Rigg-Rissman and Tasman Hamblett.

Our role as perpetual trustee

The ownership of covenanted land remains with the landowner, who is responsible for managing the land and complying with the conditions of the covenant.

The covenant agreements with the National Trust transfers to any future owner to provide permanent legal protection. The National Trust maintains a relationship with the landowners as the perpetual trustee, providing management support and advice and monitoring the covenants to ensure the conditions of the agreement are met.

Monitoring

We monitor covenants every two or three years to check their condition and discuss any management issues with the landowner. Mostly this is an opportunity to congratulate the landowner on what they've achieved and to offer encouragement and advice.

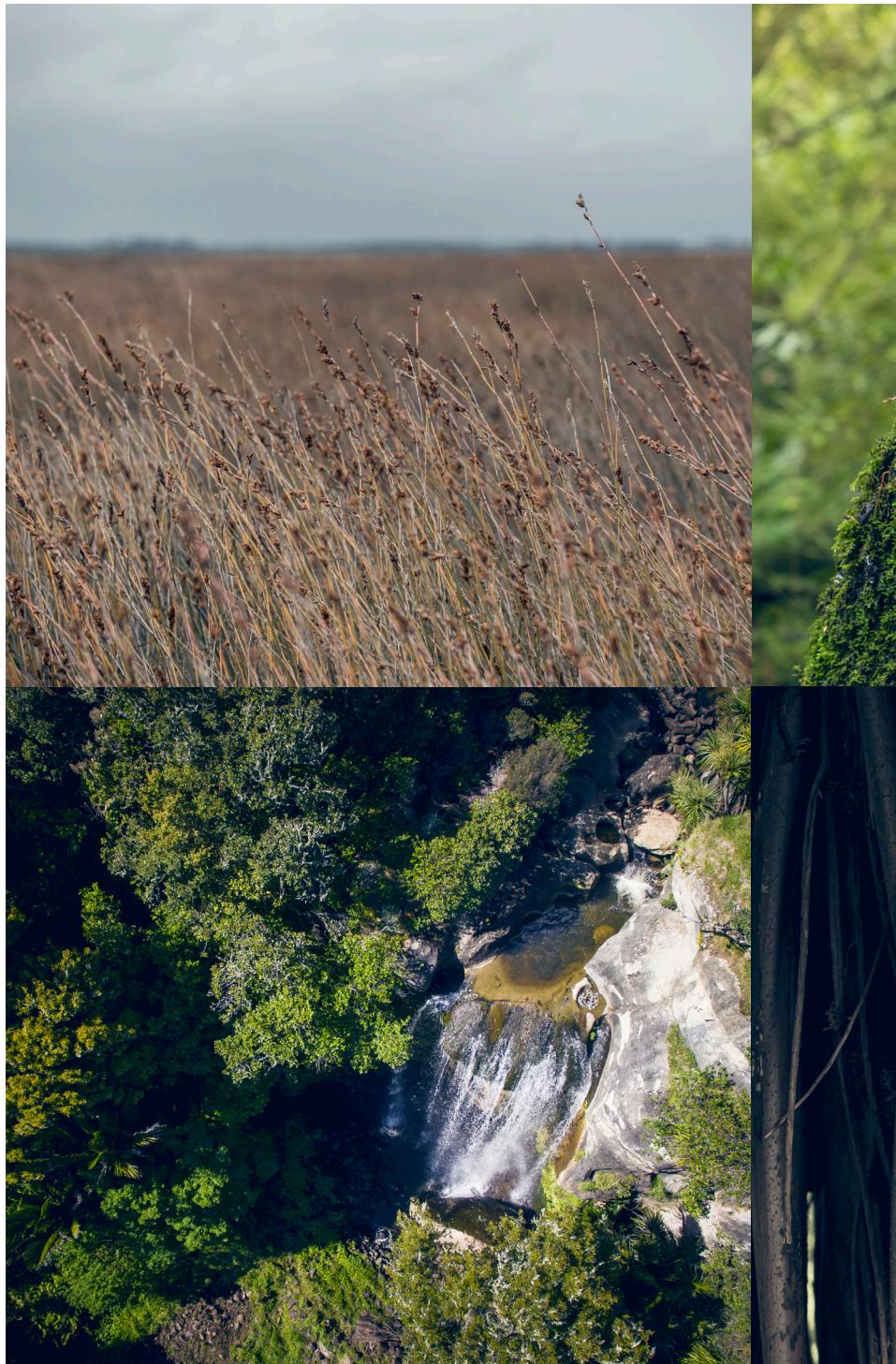
However, a minority may require attention if the conditions of the covenant are not being met or if the natural values of the covenant are being impacted.

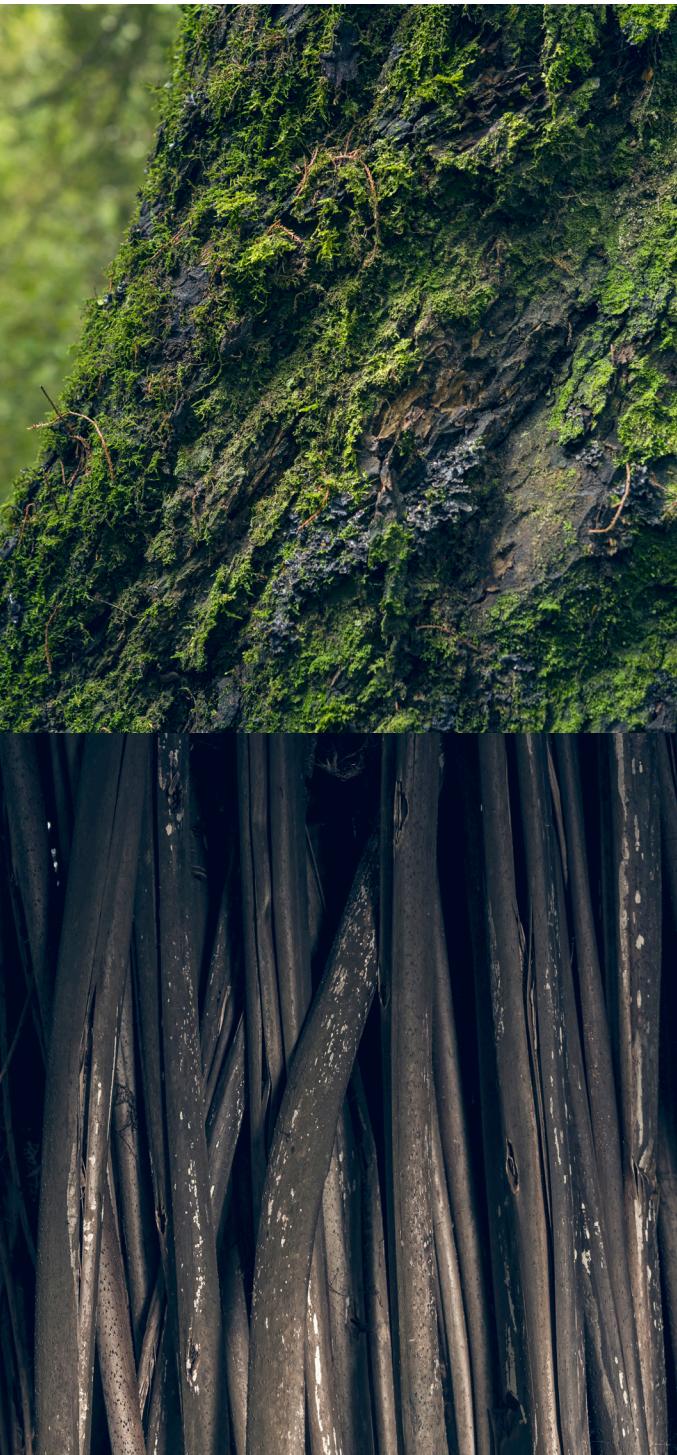
If there are issues, we work with the landowners to find the best solution. In some cases we may seek assistance from others. A local council, for example, may be able to help if there is a weed infestation from neighbouring public or private land that is spreading into a covenant.

In 2016/17 a total of 1902 covenants were monitored and 304 issues were found on 217 covenants that required attention (11%).

Very rarely, serious breaches of the covenant may result in legal action if lengthy negotiations with the landowner fail to resolve the problem. Besides monitoring, the National Trust carries out other functions in its role as perpetual trustee.

These may include Resource Management Act issues or dealing with landowner requests for minor variations to covenant conditions; although these will only be approved if they do not undermine the objectives of the original agreement.





Summary of this year's monitoring results

1,902

Covenants monitored this year

89%

Had no problems

11%

Required attention

217

Number of covenants requiring attention

492

Covenants requiring other actions as trustee

Our partnership with landowners

Landowners working together with the National Trust have for decades been protecting New Zealand natural taonga. Covenantors are protecting more of New Zealand every year and the total is now about 1% of all privately-owned land in the country.

Their huge contributions to preserving New Zealand biodiversity and landscapes are generally unheralded, with their financial commitment alone being valued at \$1.1 to \$1.3 billion over the last four decades. Over half of the land protected by covenants is forest and shrublands, and other areas include grass and tussock lands, wetlands, coastal areas such as dunes, and places of special archaeological and geological significance.

Many of New Zealand's rare and endangered species are found within National Trust covenants, including kōkako, kākāriki, the New Zealand falcon kārearea, fairy tern, Hutton's shearwater, Hochstetter's frog, jewelled gecko, and bats. Many rare plants are found on covenants, including mistletoe, orchids, weeping tree broom, tree daisies, and wood rose.

Over the Past 40 years the Trust has registered an average of two covenants every week. This pace is picking up and up and in the latest year to June, the National Trust registered 120 covenants covering an area of 2,820 ha and approved another 125 comprising 3,788 ha.

RIGHT

Falcon, Munro wetland, enjoying a walk through the Gambles wetland in Southland.



This year's
covenanting numbers

120 = 2,820 ha

New registrations

Area added to covenant network

125 = 3,788 ha

New proposals
approved

Estimated area to be added
to network

4,357 = 169,075 ha

Total registered
covenants

Total area protected

181,471 ha

Total area of registered, and approved
covenants (and formal agreements)



Working with others

The National Trust collaborates with many other public agencies, community organisations and individuals to support covenantors and community conservation.

We work closely with some regional and district councils, the Department of Conservation, Heritage New Zealand, the New Zealand Walking Access Commission and many others.

The Trust also works with universities and research organisations to promote science that will benefit conservation on private land. We currently fund an undergraduate bursary and a PhD scholarship.

We are always looking for opportunities to work with others to help our covenantors protect their land and New Zealand's natural heritage.

We sincerely thank the many individuals and organisations that worked with us during the past year.

ABOVE
Jennifer Bennett, Island Bay.

BELOW
Rob Wardle, Phil Murray and the Arrowtown Choppers.

RIGHT
Waipoua Forest Trust; Booth and John during a chemical handover; the Solway Girls, 2016.



We thank the many organisations, groups, and individuals who we have worked with this year

Anthea Goodwin, Arrowtown Business and Promotion Association, Arrowtown Village Association, Arrowtown Wilding Group, Ashburton Community Conservation Trust, Ashburton District Council, Auckland Council Environment Initiative Fund, Auckland Council, Awapikopiko School and community, Bay of Plenty Regional Council, Biodiversity Northland, Brian Rance (Department of Conservation Southland), Canterbury Botanical Society, Carterton District Council, Central Otago Wilding Conifer Control Group, Coromandel Kiwi Project, Department of Conservation (DOC), Dipton Landcare Group, DOC's Conservation Partnership Fund and Biodiversity Condition and Advice Fund, DOC's GIS team, Dr Karen Verdurmen (Kauri Dieback surveyor), Ecological Solutions Ltd, Elizabeth Pishief, Environment Canterbury (ECan), Environment Southland, Far North District Council, Fish and Game NZ, Fonterra-DOC Living Water, Forest and Bird, Friends of Mokotahi Hill, Friends of Te Mata Park, Gisborne District Council, Glen Falconer (Greater Wellington Regional Council), Greater Wellington Regional Council, Hawke's Bay Botanical Society, Hawke's Bay Regional Council, Heritage NZ Pouhere Taonga, He Tini Awa Trust, Heddon Bush School, Horizons Regional Council, Jan Simmons (DOC Hamilton Office), Jenna Reid (Overseas Investment Office), Julie Deslippe (Victoria University of Wellington), George Gibbs (Greater Wellington Regional Council Ranger), Kaipara District Council, Kaiuku Marae, Kerikeri Shadehouse Volunteers, Kevin Matthews, Kevin Jones, Kiwis for Kiwi, Kiwi Coast Think Tank, Land Information NZ, Landcare Research, Lizzie Barone (Overseas Investment Office), Longbush Ecological Trust, Lotteries Environment and Heritage Fund, Mark Dunn, Mark McAlpine (Department of Conservation Funds Team), Martin Hunt, Mahakirau Forest Estate Society, Martinborough School, Massey University Scholarships Committee, Masterton District Council, Mauriceville School, Mid and South Canterbury Community Trust, Moehau Environment Group, Nerida Bradley (Queensland Trust for Nature), New Plymouth District Council, Ngā Uruora - Kāpiti Project Inc., Ngai Tahu, Nick Head (Department of Conservation Canterbury), Norfolk Road Native Nursery, Northland Regional Council, NZ Landcare Trust, Otatara Landcare Group, Papa Aroha Environment Group, Paul Franklin (NIWA), Piripi Rangihaeata, Predator Free New Zealand, Predator Free Plimmerton, Queen's Commonwealth Canopy initiative, Queenstown Lakes District Council, Queenstown Trails Trust, Rangitane o Wairarapa, Ric Cullinane (Walking Access NZ), Rebecca Martin (Ministry for Primary Industries), Reconnecting Northland, Rimutaka Restoration Trust, Riordan Kemp Omaha Marae, Shona McCahon (Author, Forever protected – 40 years of QE II National Trust), Sinclair Wetlands Management Group, South Canterbury Conservation Trust, South Invercargill Lions Club, South Taranaki District Council, Southland District Council, Steel and Tube, Sustainable Business Network's Million Metres Stream project, Taranaki Biodiversity Trust, Taranaki Electricity Trust, Taranaki Regional Council, Thames Coast Kiwi Care Group, Tindall Foundation, Timaru District Council, Tolaga Bay Area School, Tutukaka Landcare Coalition, University of Otago student research programme, Waiau Trust, Waikato Biodiversity Forum, Waikato River Authority, Waikato Regional Council, Waikato Regional Council Environment Initiative Fund, Waikato Weedbusting Squad, Wairarapa Federated Farmers, Wairarapa Forest and Bird, Wakatipu Wilding Conifer Control Trust, Walking Access Commission, Weebusters NZ, Wellington City Council, Whangarei District Council, Whangarei Heads Landcare Forum, and Whenuakite Kiwi Care Group. We thank our financial members for their loyal support. We thank those who generously gifted money to the National Trust this year.



The National Trust faces challenges in meeting the growing demand from landowners for covenants as the success of the Trust becomes better known and environmental awareness grows.

Our base government grant allows us to approve in the order of 110 new covenants a year but demand from landowners for the Trust to covenant their land can be up to twice this in some years.

The average cost of the National Trust assessing and registering a new covenant is around \$22,000. About 40% goes towards helping landowners with fencing costs, 16% for the surveying and other costs include field work, ecological assessments and legal and administration costs.

The Queen's Commonwealth Canopy (QCC) initiative, also funded by the government, provided \$1 million funding spread over three years, which allowed the National Trust to add another 15 to 20 covenants annually over three years to meet a greater proportion of demand. This initiative is due to end at the end of the current 2017/18 financial year.

The National Trust's base grant does not provide funding to land-owners for covenant management once registered beyond regular monitoring and providing advice. Landowners generally do their own pest and weed control, fence maintenance and enhancement work.

Some covenant owners can be overwhelmed by weed and pest infestations from neighbouring properties or by the effects of extreme natural events such as earthquakes, fires and floods. Financial pressure or ageing can also make it more difficult for some covenantors to maintain their protected land.

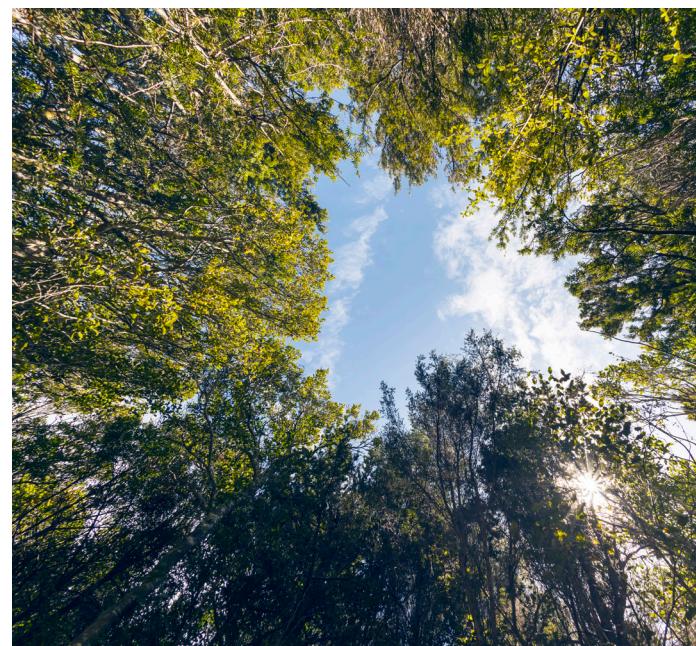
The Trust seeks help for landowners from contestable funds, sponsorship and other sources to support such work but there is strong competition for these. In the past we received help from the government's Biodiversity Condition and Advice Funds,

which were established to support biodiversity protection on private land. However, in 2014 these were replaced with the Community Partnership fund but this also covers public land and has attracted much greater competition for the funding that is available.

These days the National Trust is looking for other ways to provide management support for those covenant landowners which need it, including working more closely with those councils and other community groups with biodiversity support programmes.

Increasingly some councils are stepping up to help with the costs that landowners face in establishing and managing covenants and many councils provide some form of rates relief for covenanted land.

The extent to which different councils provide support for biodiversity enhancement work and rates relief for covenants are both areas that would benefit from a more consistent approach.



The Stephenson Fund for Covenant Enhancement was launched by the National Trust in May this year to support strategic enhancement projects and to help covenantors recover from extreme natural events and other serious challenges to maintaining the values of their covenants.

Ongoing management of covenants is generally the responsibility of the landowners and a recent study has shown that they are collectively spending around \$25 million annually on covenant maintenance and enhancement to protect natural values.

The Stephenson Fund was established because the National Trust recognises there are circumstances where some landowners need assistance to meet the cost of major improvements or challenges to the values of their covenant.

A minimum of \$150,000 will initially be budgeted for the Fund annually, using National Trust funds from donations, bequests and investment income. The Trust hopes to grow the fund through donations and sponsorship over time and as resources allow.

Since being established, the Stephenson Fund has helped landowners from the Far North to Southland. The bulk of funds have

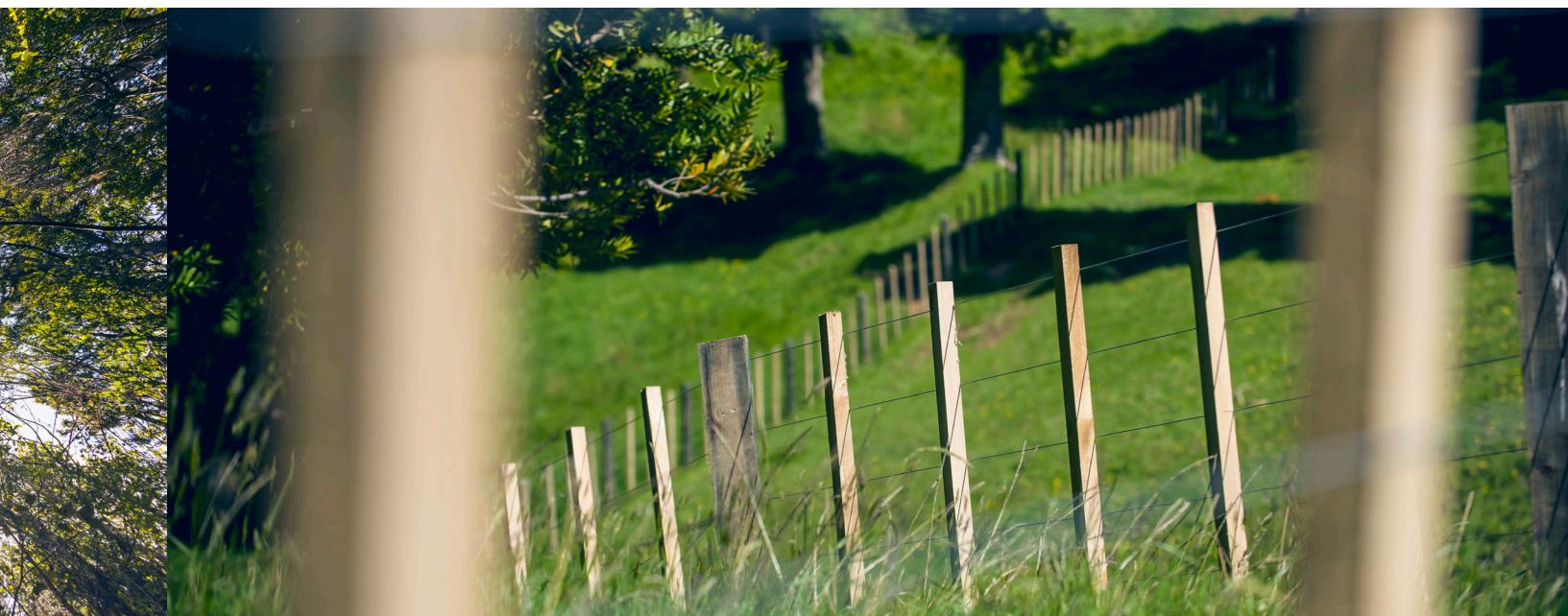
been allocated to covenant management and enhancement, with substantial amounts also going to fencing upgrades, help with hardship including the impact of extreme natural events, and species recovery work.

Some of the projects to have received support include fencing to exclude deer from covenants, support for recovery planning following the Port Hills fire in Christchurch, wetland restoration on the Kapiti Coast, and support for rebuilding fences around covenants after the Kaikoura earthquake.

The Stephenson Fund takes its name from Gordon and Celia Stephenson, who were the first people to register a QEII covenant with the National Trust in 1979. Gordon was one of the leading visionaries for, and a key founder of, the National Trust.

He was also a leader in a wide range of other environmental and sustainable farming organisations and projects.

LEFT TO RIGHT
Through the canopy;
checking the fence line
in the Waikato.



Prioritising Protection

The National Trust in partnership with covenant landowners plays a crucial role in protecting biodiversity-rich lowland areas in generally highly modified landscapes. In contrast, much of our public conservation estate is found in areas that weren't suitable for development. Despite the importance of biodiversity, privately-owned lowland areas are the least protected and most at risk from development.

Demand for covenants outstrips the National Trust's capacity to register them because of financial constraints, so we carefully prioritise covenant proposals.

Our target is to ensure that at least 90% of all new covenant approvals align with at least one of the four ecosystem and habitat types identified in the Statement of National Priorities for the protection of rare and threatened biodiversity on private land.

These four priorities are:

- Indigenous vegetation on land with 20% or less indigenous cover
- Indigenous vegetation associated with sand dunes and wetlands
- Indigenous vegetation associated with 'naturally uncommon' ecosystems – ecosystems that are naturally unusual or rare
- Habitats of acutely and chronically threatened indigenous species.

Other factors taken into account when prioritising proposals include the condition of the values to be protected, connectivity of the site with other protected areas, landowner motivation and the long-term sustainability of the site. The small number of covenants approved during 2016/17 that do not meet one of the four national priorities do protect important landscapes, sites with cultural, historic or geological values and places with opportunities for public access and recreational use.

RIGHT
Rimu from below.



Queen's Commonwealth Canopy initiative

The National Trust received a funding boost of \$1 million spread over three years, allowing us to approve an extra 15 to 20 covenants annually from 2015/16. The QCC was announced in November 2015 to mark Queen Elizabeth II's long reign and leadership of the Commonwealth and aims to create a network of native forest programmes throughout the Commonwealth.

In the 2016/17 year the following QCC covenants were established:

Name	Area	Location
Cook Covenant	167.0 ha	Glenham, Southland
Taranaki Mahood - Lowe Covenant	132.9 ha	Egmont Village, Taranaki
Richardson Covenant	95.0 ha	Manaroa, Marlborough
Orari Gorge Covenant	68.0 ha	Orari Gorge, Canterbury
Wrigley Woodlands Covenant	67.6 ha	Kakapuaka, Otago
Bushwood Farm Covenants	42.0 ha	Ermadale, Southland
Horse-shoe Covenant	24.3 ha	Conway Flat, North Canterbury
Cook Covenant	24.0 ha	Okaihau, Northland
Wingate Bush Covenant	19.4 ha	Castlehill, Wairarapa
Amesbury Family Covenant	12.9 ha	Hukatere, Northland
Edmonds Covenant	12.8 ha	Castlehill, Wairarapa
Yearsley Covenant	12.4 ha	Whenuakite, Coromandel
Omoto 1617 Covenant	11.0 ha	Grey Valley, West Coast
Kokonga Farms Covenant	10.8 ha	Waikaretu, Coromandel
Yearsley Covenant	10.5 ha	Whenuakite, Coromandel
Yearsley Covenant	10.2 ha	Whenuakite, Coromandel
Morrison's Bush Covenant	8.7 ha	Alfredton, Tararua
Moeraki Bush Covenant	8.2 ha	Allanton, Otago
Yearsley (Neurzling) Covenant	5.5 ha	Whenuakite, Coromandel

EXAMPLES OF COVENANT APPROVALS **SUPPORTING BIODIVERSITY PROTECTION**

Following are examples of covenants approved in the 2016/17 financial year that supported at least one of the four ecosystem and habitat types identified as national priorities for protection on private land in the government's Biodiversity Strategy.



A large wetland, shrub and tussock landscape - Southland

This Landcorp-owned 1,456 ha block is a regionally important wetland, shrubland and tussockland on Mt Hamilton Station in Southland. The area has at least 139 indigenous plant species and is dominated by copper tussockland but also includes large areas of scrub, shrubland, wetlands and some remnant silver beech forest.

This covenant is a showcase demonstrating succession from tussockland to beech forest through the intermediate stage of scrub then shrublands.

The covenant protects the habitat of eight threatened species including the Australasian bittern, fernbird and New Zealand falcon, as well as the southern grass skink.

The area has inland outwash gravels that are poorly drained and amongst the tussock are slender wine sedge (*Carex tenuiculmis*), tufted hair-grass (*Deschampsia caespitosa*), and willowherb (*Epilobium insulare*).

The area is immediately adjacent to the Takitimu Forest Conservation Area, which provides a good source of seed for the covenant.

Special features

National priorities 1, 2, 3 and 4
Connectivity



Limestone cliffs with rare plants and Maori rock art – South Canterbury

The Frenchman's Gully covenant of limestone cliffs and sinkholes hosts the critically threatened taiko gentian, which is found only on limestone outcrops near Pareora, west of Timaru. There are several other small and rare native herbaceous plants such as native carrot, aniseed and a daisy, which is yet to be named.

This 7-ha covenant includes two blocks of forest, a limestone cliff, sinkholes and Maori rock art.

Previously thought to be much more widespread on limestone cliffs, the gentian population has declined because of quarrying and competition from pasture grass and small exotic plant species.

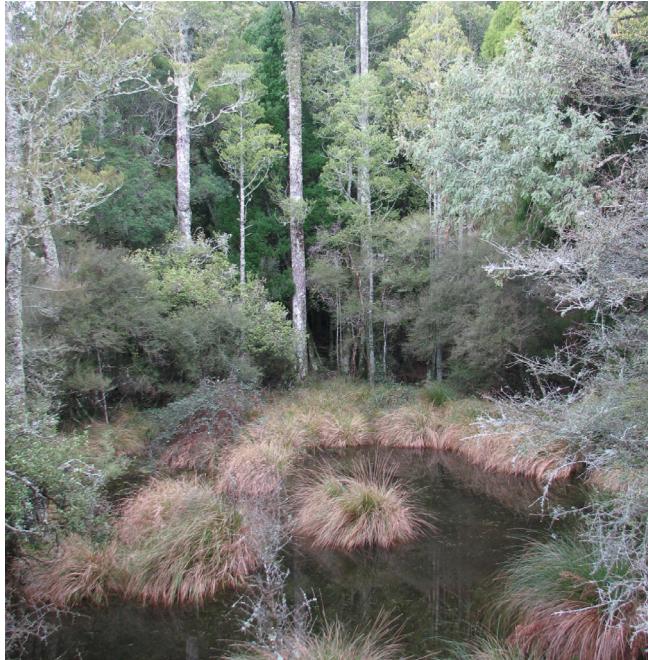
The aim of the covenant is to allow the native woody plants to recover while maintaining open habitats for the threatened herbaceous species on the limestone bluffs.

The covenant is also known to be good habitat for lizard species and is likely to contain fossils.

Special features

National priorities 1, 3 and 4
Cultural values





Rare Hawke's Bay forest remnant and wetland

This covenant protects a wetland area with species of native sedges, cabbage trees and swamp kio kio on a property southwest of Hastings. Large areas of the wetland have been planted with 1,800 plants with the help of Fish & Game and Hawke's Bay Regional Council. The area also contains a forest remnant as well as shrubland in an area totalling 7.5 ha.

The forest is highly representative of the original bush in the area and is dominated by kahikatea, tōtara and kōwhai. This forest is part of an area identified in 1994 as a Recommended Area for Protection as it is largely restricted in the North Island.

The property adds to a wildlife corridor, lying a 1 km away from Puahanui Bush, a 160-ha forest remnant under a DOC covenant.

Special features

National priorities 1 and 2
Connectivity

Diverse forest and seepage swamp area - Tararua region

A 8.7-ha block of lowland forest with seepages supporting sedges, rushes and mosses will be protected with assistance from Horizons Regional Council. The covenants will be registered as part of the Queen's Commonwealth Canopy initiative.

The covenant is located on a sheep and beef farm near Eketahuna in the Tararua District and includes an area of mature tawa and kahikatea surrounding the swamp area. There is also a number of very large hinau, covered in epiphytes, forming part of the canopy. The property will be fenced with deer-proof netting to keep out feral animals as well as farm stock, which will allow seedlings and palatable species.

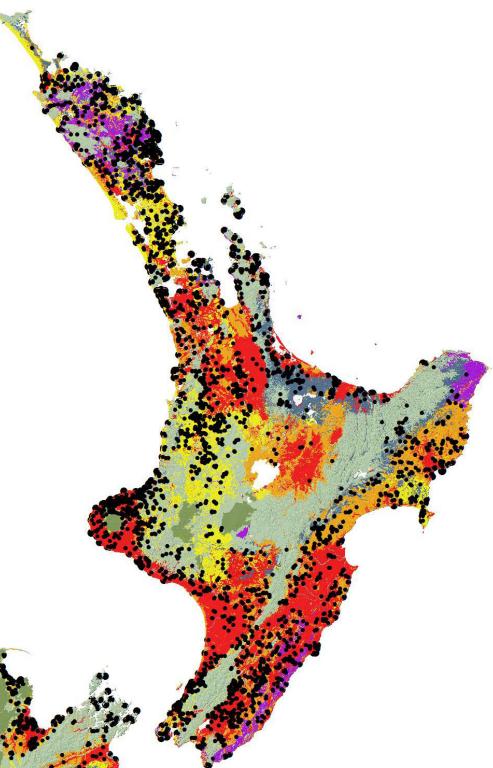
The site has a Land Environment of New Zealand (LENZ) ranking of acutely threatened (less than 10% of the original vegetation type remains in New Zealand) and also meets National Priority 2 by protecting native vegetation associated with wetlands including fern, Carex, rush species, kahikatea, pukatea and toetoe.

Special features

National priorities 1, 2 and 3

Regional Council	2017 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 registered covenant size (ha)	Median registered covenant size (ha)
Auckland	494,162	10	282	292	3,962.4	3,809.1	840.8	13.0	2.89
Bay of Plenty	1,207,050	9	174	183	9,666.2	9,464.8	6,563.5	55.3	4.21
Canterbury	4,450,760	48	316	366	16,448.0	13,647.9	1,679.4	44.6	8.09
Gisborne	838,582	9	139	148	4,575.7	4,435.8	1,103.8	32.1	9.1
Hawke's Bay	1,413,721	7	245	252	10,771.8	10,677.4	4,606.0	43.8	10.21
Manawatū-Whanganui	2,222,059	27	364	391	8,750.3	7,863.5	352.3	21.6	7.53
Marlborough	1,045,765	5	79	84	4,504.9	4,288.7	1,055.7	52.7	6.9
Nelson	42,441	1	16	17	317.6	314.1	139.5	19.6	5.92
Northland	1,250,032	30	683	713	10,396.1	9,860.1	420.6	14.4	3.68
Otago	3,120,863	28	192	220	63,757.6	62,733.0	21,909.6	330.1	7.8
Southland	3,119,495	20	333	353	9,651.2	7,509.4	808.7	22.7	8.9
Taranaki	725,436	51	372	424	9,129.0	8,098.9	753.9	21.9	2.83
Tasman	961,623	7	161	168	2,950.3	2,723.0	399.9	17.0	3.94
Waikato	2,389,990	45	623	668	17,751.4	16,108.2	801.6	25.4	6.56
Wellington	804,866	21	333	354	6,230.0	6,070.4	824.3	18.0	4.52
West Coast	2,324,381	9	78	87	2,608.4	2,399.4	619.1	30.8	10.13
Totals		327	4,390	4,720	181,471	170,004		38.5	5.58

National Trust covenants on Landcare Research Threatened Environments map



Protected open space	Number	Hectares
Registered covenants	5,357	169,075.5
Approved covenants**	330	11,467.3
Formal agreements	33	928.3
Total**	5,720	181,471.1

Largest registered covenant
21,910 ha

Largest approved covenant
1,400 ha

Average size of registered and approved covenants
38.5 ha

Altitude range
Sea level to 2,400 m asl

Region with the most registered covenants
Northland - 683 covenants

Region with the largest area in registered and approved covenants
Otago - 63,752 ha

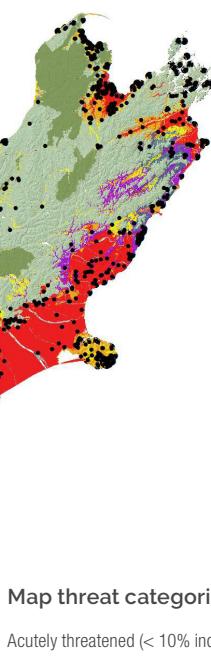
Organisation with the most covenants
Landcorp Farming Limited - 186 registered covenants

Regional councils with most covenants approved this year
Taranaki - 25

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.

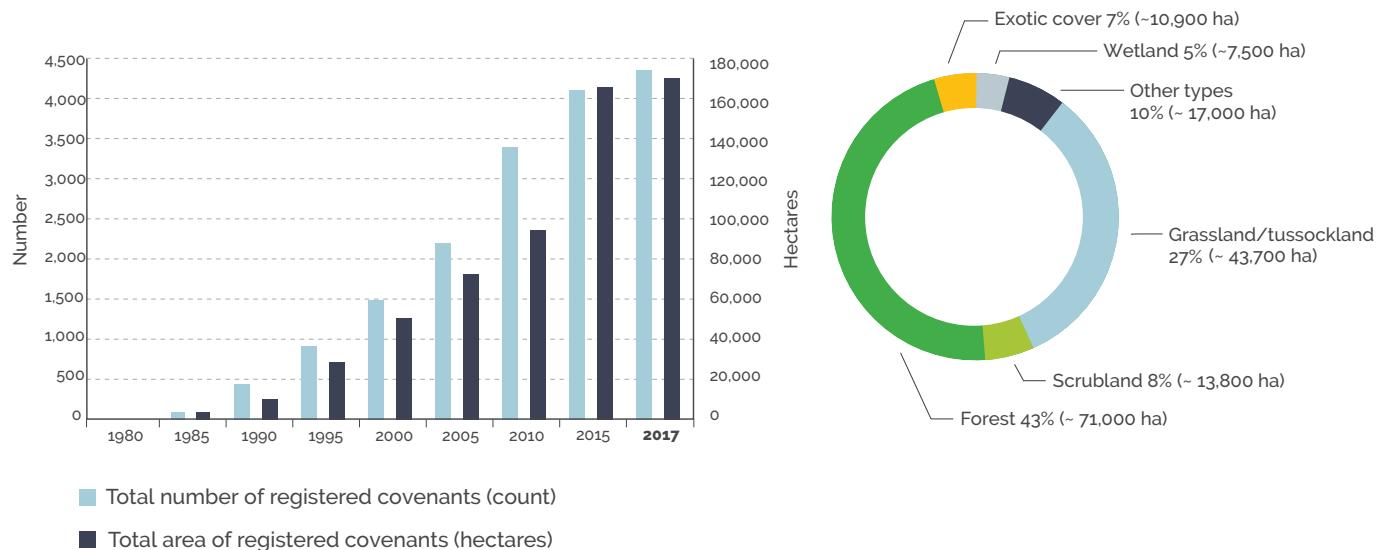
** Areas are approximate as not all approved covenants have been formally surveyed



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



Monitoring report summary

Total number of covenants monitored 2016/17	1902
Total number of covenants monitored that required attention at end of period ¹	217 (11%)

Breakdown of covenants that required attention in 2016/17

	Number of covenants
Covenants with conditions issues only	43
Covenants with legal compliance issues only	136
Covenants with both condition and legal compliance issues	36
Covenants with serious legal and compliance issues	2
Grand Total*	217

Nature of issues requiring attention²

Issue	Number of covenants
Fencing	97
Pests	34
Stock intrusion	46
Unapproved actions	12
Weeds	115
Grand Total* note some covenants have more than one issue	304

¹ Plus an additional 91 covenants identified as requiring attention but marked as exempt because of a landscape-wide issue beyond the reasonable control of the landowner. A coordinated regional approach involving all stakeholder organisation and landowners is needed to effectively manage these issues. The National Trust is committed to supporting this approach wherever it can.

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

Statement of Service Performance

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 2016–2017 Memorandum of Understanding with the Minister of Conservation.

Implementation of legal protection of natural and historic resources on private or leasehold land

	2015/16 Actual		2016/17 Target		2016/17 Actual	
	Number	Hectares	Number	Hectares	Number	Hectares
Legal protection						
Approved covenants including QCC covenants	110	1,925.6	126	3,654	125	3,788.0
Approved Queens Commonwealth Canopy covenants (QCCC)	11	816.2	16	0	19	743.0
Registered covenants	118	3,412.2	115	2,875.0	120	2,820.2

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

	2015/16 Actual		2016/17 Target		2016/17 Actual	
	Number	Hectares	Number	Hectares	Number	Hectares
Management Services						
National Trust-owned properties	27	1,436	27	no target	27	1,436.0
Monitored registered covenants	1,907	39,289	1,850	no target	1,902	98,993.4

Other activities

		2016/17 Target		2016/17 Actual	
		Number	Hectares	Number	Hectares
Percentage of all new non-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.				90%	98%
Percentage of QCCC 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	97
Number of regional covenantor events				4	5
Number of registered covenants where the QEII National Trust has exercised functions as the Statutory Trustee. Functions include: requests for variations and activity approvals; Resource Management Act and related activity affecting covenants; significant covenant stewardship support; and compliance and enforcement action.				300	492

2017 FINANCIAL STATEMENTS

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 30-41 for the year ended 30 June 2017.

For and on behalf of the Board of Directors, which authorised the financial report on 11 September 2017.



James Guild
Chair

Dated: 11 September 2017



Mike Jebson
Chief Executive

Dated: 11 September 2017

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 Actual \$	2017 Budget \$	2016 Actual \$
Revenue				
Government grant		4,674,000	4,674,000	4,474,000
Contestable funds		438,136	350,000	474,693
Donations and other grants		314,640	35,000	169,928
Other revenue		141,418	80,744	54,816
Operating revenue		5,568,194	5,139,744	5,173,437
Expenditure				
Field operations		1,552,652	1,651,000	1,370,977
Covenants	1	206,167	1,131,000	8,529,948
Contestable funds		438,136	350,000	474,693
Administration	2	1,988,905	2,244,000	2,009,638
Property operations		81,929	63,000	104,401
Public relations		101,811	130,000	71,357
Depreciation and amortisation	3	139,330	130,000	91,282
Operating expenditure		4,508,930	5,699,000	12,652,296
Investment income		1,308,300	650,000	1,318,050
Investment expenses		282,350	38,000	412,505
Net investment income	4	1,025,950	612,000	905,545
Total comprehensive revenue and expenditure		2,085,214	52,744	-6,573,314

Explanation of total comprehensive revenue and expenditure

The National Trust concluded the financial year ended 30 June 2017 with total comprehensive revenue and expenditure of \$2,085,214 against a budgeted total comprehensive revenue and expenditure of \$52,744. The difference between budgeted and actual total comprehensive revenue and expenditure results primarily from two unbudgeted factors outside of the National Trust's control:

1. The movement in the discount rate used to calculate the pre-1995 fencing provision resulted in a reduction of the provision liability of \$796,193 in the Statement of Financial Position with a corresponding reduction in expenditure of the same amount being included in the Statement of Comprehensive Revenue and Expenditure. Refer to Note 12 for further information.
2. The net effect of the realised/unrealised gains/losses on the investment portfolio was a gain of \$511,039 recognised as income in the Statement of Comprehensive Revenue and Expenditure. Refer to Note 4 for further information.

The significant variance from the National Trust's total comprehensive revenue and expenditure of (\$6,573,314) for the year ended 30 June 2016 was primarily the result of the National Trust's decision in 2015/16 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 the Statement of Comprehensive Revenue and Expenditure.

The accompanying notes on pages 34 to 41 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	2017 Actual \$	2017 Budget \$	2016 Actual \$
At beginning of period	11,059,414	11,059,414	17,632,728
Total comprehensive revenue and expenditure	2,085,214	52,744	-6,573,314
At end of period	13,144,628	11,112,158	11,059,414

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	2017 Actual \$	2016 Actual \$
Equity			
National Trust equity		13,144,628	11,059,414
Total equity		13,144,628	11,059,414
Represented by:			
Current assets			
Cash and cash equivalents		1,208,204	1,333,769
Accounts and other receivables	5	355,618	629,942
Investments	6	16,189,838	14,928,991
Total current assets		17,753,660	16,892,702
Less current liabilities			
Accounts and other payables	7	484,111	622,279
Deferred revenue	8	474,882	558,006
Employee entitlements		114,956	90,720
Pre-1995 fencing provision	12	112,000	105,000
Other current liabilities		0	91,250
Total current liabilities		1,185,949	1,467,255
Working capital		16,567,711	15,425,447
Non-current assets			
Accounts receivable	5	50,000	100,000
Property, plant and equipment	9	3,180,949	2,957,044
Intangible assets	11	83,775	117,923
Total non-current assets		3,314,724	3,174,967
Non-current liabilities			
Pre-1995 fencing provision	12	6,737,807	7,541,000
Total non-current liabilities		6,737,807	7,541,000
Net assets		13,144,628	11,059,414

The accompanying notes on pages 34 to 41 form an integral part of these financial statements.

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	2017 Actual \$	2016 Actual \$
Cash flows from operating activities		
Receipts from operations	5,325,827	4,668,470
Donations and bequests received	223,390	169,928
Interest received	416,093	428,919
Dividends received	220,807	252,108
Other revenue received	141,418	54,816
Payments to suppliers	(4,043,215)	(3,410,371)
Payments to employees	(1,311,558)	(1,215,572)
Net cash flow from operating activities	972,762	948,298
Cash flows from investing activities		
Proceeds from sale of financial instruments	2,521,448	3,173,922
Purchase of financial instruments	(3,271,256)	(3,496,281)
Purchase of property, plant and equipment	(329,951)	(64,844)
Purchase of intangible assets	(18,568)	(23,725)
Net cash flows used in investing activities	(1,098,327)	(410,928)
Net cash flows from/(used in) financing activities	0	0
Net increase/(decrease) in cash and cash equivalents	(125,565)	537,370
Cash and cash equivalents at beginning of period	1,333,769	796,399
Cash and cash equivalents at end of period	1,208,204	1,333,769

The accompanying notes on pages 34 to 41 form an integral part of these financial statements.

STATEMENT OF COMMITMENTS AS AT 30 JUNE 2017**Covenant commitments**

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

	2017	2016
	\$	\$
	3,832,683	3,424,468

Operating lease commitments

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

Less than 1 year	80,000	80,000
Between 1 and 2 years	80,000	80,000
More than 2 years	146,670	226,670
	306,670	386,670

Property endowment commitments

The National Trust holds \$348,635 in property endowments that have been received for specific properties owned by the National Trust (2016: \$348,635).

Covenant endowments

The National Trust holds \$1,709,509 in covenant endowments that have been received for specific covenants (2016: \$1,709,509).

Capital commitments

The National Trust has no capital commitment as of 30 June 2017 (2016: nil).

STATEMENT OF CONTINGENCIES AS AT 30 JUNE 2017

The National Trust has no contingent liabilities as at 30 June 2017 (2016: nil).

The accompanying notes on pages 34 to 41 form an integral part of these financial statements.

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 2017 were authorised for issue by the Board on 11 September 2017.

Statement of compliance

The financial statements have been prepared in accordance with Queen Elizabeth the Second National Trust Act 1997 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, expenses, and assets and liabilities to ensure it effectively achieves its objectives and purpose, while still remaining a going concern

Revenue

National Trust's 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.

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	5-10 years
- Buildings and improvements (gifted and purchased buildings)	25-50 years
- Land fencing	40 years
- Leasehold improvements	Life of the lease

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.

Financial risk management

The National Trust's principal financial instruments comprise cash and cash equivalents and 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 2017.

1. Covenants

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

	2017 \$	2016 \$
Fencing	536,829	486,658
Fencing - movement in pre-1995 fencing provision	-861,791	7,646,000
Survey	448,792	386,713
Weed and pest control	40,036	7,577
Revegetation	1,498	3,000
The Stephenson Fund	40,803	0
Total covenants expenditure	206,167	8,529,948

A one-off expense of \$7,646,000 was recognised in the year ended 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.

The pre-1995 fencing provision liability was updated as at 30 June 2017 to reflect the movement in the discount rate (the Treasury Yield Curve) which increased on average by around 0.6%. This resulted in a decrease in the provision liability of \$861,791 and a reduction in fencing expenditure of the same amount. Refer to Note 12 for additional information.

On 9 May 2017 the National Trust officially launched The Stephenson Fund for Covenant Enhancement. This fund aims to support covenantors with strategically important enhancement projects that have been planned for their covenants. It can also be used to help covenantors with recovery plans for their covenants after being hit by extreme natural events, or if they are facing other challenges such as large financial burdens or health issues. Successful applicants for this contestable fund may receive up to 50% of the total costs of their projects up to a maximum of \$20,000.

2. Administration

	2017 \$	2016 \$
Administration expenditure includes:		
Directors' fees	36,962	29,309
Remuneration of four key management personnel	544,699	545,992
Audit fees	31,071	29,950
Rental expenses	94,615	93,323
Doubtful debts	2,432	3,104
Loss on disposal of property, plant and equipment	19,432	1,306
Other administration expenses	1,259,694	1,306,654
Total administration expenditure	1,988,905	2,009,638

3. Depreciation and amortisation

	2017 \$	2016 \$
Depreciation has been charged on the following classes of asset:		
Furniture and fittings, plant and equipment, computer and electronic equipment	70,392	25,834
Improvements	15,127	14,838
Land fencing	1,095	1,095
Amortisation has been charged on:		
Intangible assets	52,716	49,515
Total depreciation and amortisation expenditure	139,330	91,282

4. Net investment income

	2017 \$	2016 \$
Investment income includes:		
Interest	396,586	502,891
Dividends	220,807	252,108
Realised gain	73,217	171,898
Unrealised gain	617,690	391,153
Total investment income	1,308,300	1,318,050
Investment expenditure includes:		
Discount rate unwind on pre-1995 fencing provision	65,598	0
Investment fees	36,884	34,441
Realised loss	26,862	45,269
Unrealised loss	153,006	332,795
Total investment expenditure	282,350	412,505
Net investment income	1,025,950	905,545

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 expenditure 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

	2017 \$	2016 \$
Accounts receivable	319,677	626,924
Less: Provision for doubtful debts	-5,536	-3,104
	314,141	623,820
Interest receivable	72,658	92,165
GST receivable	18,819	13,957
Total accounts and other receivables	405,618	729,942

6. Investments

	2017 \$	2016 \$
Details of investments are as follows:		
Fixed interest - corporate bonds	7,963,819	7,585,335
Term deposits	750,000	914,600
Australian/NZ equities	4,972,517	4,541,800
International equities	2,503,502	1,887,256
Total investments	16,189,838	14,928,991

7. Accounts and other payables

	2017 \$	2016 \$
Accounts payable	442,215	593,795
Accrued trade expenses	41,896	28,484
Total accounts and other payables	484,111	622,279

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 that has not been spent for the designated purpose and that has a return obligation if unspent is reported as deferred revenue.

Total deed amount \$	Project income to date \$	Deferred revenue 2017 \$	Deferred revenue 2016 \$
2,052,767	1,903,218	474,882	558,006

Deferred revenue comprises:

- 13 individual projects from three contestable fund rounds from the Biodiversity Condition and Advice Fund
- five individual projects from Community Conservation Partnership Fund
- three individual projects from Lotteries Environment and Heritage Fund
- 24 individual projects from council funds

9. Property, plant and equipment

	2017				
	Land \$	Buildings and improvements \$	Fencing \$	Other \$	TOTAL \$
Cost at beginning 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 beginning of the year	2,571,501	258,226	21,654	105,663	2,957,044
Acquisitions	0	102,743	0	227,208	329,951
Disposals*	0	0	0	-19,432	-19,432
Depreciation	0	-15,127	-1,095	-70,392	-86,614
Net book value at end of the year	2,571,501	345,842	20,559	243,047	3,180,949
Cost at end of the year	2,571,501	605,757	88,195	446,984	3,712,437
Accumulated depreciation	0	-259,915	-67,636	-203,937	-531,488
Net book value at end of the year	2,571,501	345,842	20,559	243,047	3,180,949

*Disposals are reported net of accumulated depreciation.

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

During the year ended 30 June 2017, three significant capital expenditure projects were undertaken:

- A 12-metre-long footbridge was placed over the Awapikopiko stream, 16 kms east of Woodville, in February 2017. It was built off site and installed by a digger. The footbridge will provide safe, all-weather access for the public to the popular picnic and walking area.
- A new kitchen and reconfigured bathroom was built at the National Trust's property on Aroha Island, in Kerikeri Inlet. The project was funded by both the National Trust and Aroha Island Charitable Trust, who manage Aroha Island on behalf of the National Trust. The total project cost has been capitalised, with Aroha Island Charitable Trust's contribution recognised as a donation in the Statement of Comprehensive Revenue and Expenditure.
- A comprehensive refurbishment of the National Trust's Head Office at 138 The Terrace, Wellington was undertaken. All furniture and fittings no longer used after the refurbishment were written off.

10. Land and improvements

	2017 \$ Land	2017 \$ Improvements	2017 \$ Total	2016 \$ Total
Aroha	425,000	298,520	723,520	663,109
Awapikopiko Reserve	42,000	28,322	70,322	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
Maungarauahine 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	19,000	129,000	130,117
Tumutumu Bush	115,000	0	115,000	115,000
Waiata Bush	25,000	0	25,000	25,000
	2,571,501	345,842	2,917,343	2,829,727
Lake Wainamu (vested)	0	0	0	0
Total land and improvements	2,571,501	345,842	2,917,343	2,829,727

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

11. Intangible assets

	2017 Software \$
Cost at beginning of the year	255,480
Accumulated amortisation	-137,557
Net book value at beginning of the year	117,923
Acquisitions	18,568
Amortisation	-52,716
Net book value at end of the year	83,775
Cost at end of the year	274,048
Accumulated amortisation	-190,273
Net book value at end of the year	83,775

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

12. Pre-1995 fencing provision

	Note	2017 \$	2016 \$
Provision at the beginning of the year		7,646,000	0
Additional provisions made		0	7,646,000
Amounts used/unused amounts reversed		0	0
Discount unwind	4	65,598	0
Effect of change in the discount rate	1	-861,791	0
Provision at the end of the year		6,849,807	7,646,000

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 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 per metre (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, which has an average spot rate of 3.74% (2016: 3.05%)
- 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 expects 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 2017 to reflect what the final cost will be in today's dollars.

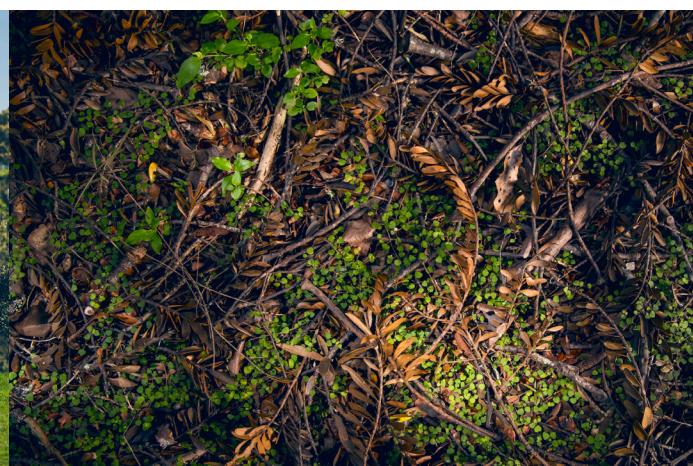
The estimate cannot take into account expected dedicated future funding to this liability so the net costs to the organisation are likely to be lower.

It is expected that much of the 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 \$1,248,000/\$2,158,000 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 \$1,370,000 and an increase/decrease in the covenants expenditure and decrease/increase in equity by the same amount.



13. Related party transactions

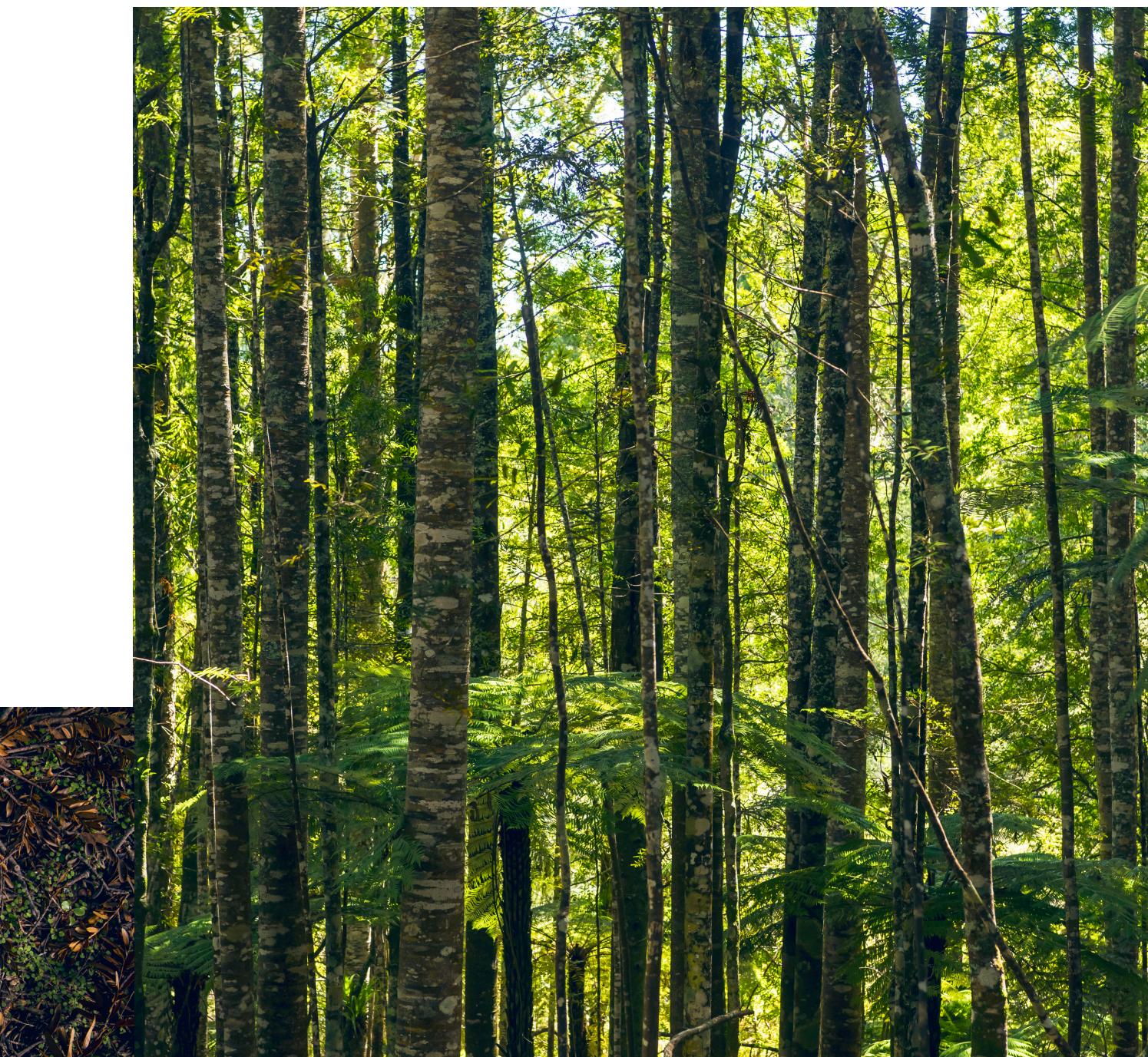
During the year ended 30 June 2017, the National Trust paid High Peak Partnership \$15,141 as a contribution to the fencing costs surrounding two new covenanted areas. The National Trust's Chair, James Guild, is a partner in High Peak Partnership. Survey costs of \$5,600 were paid to a third party in relation to these covenants.

A third-party payment of \$5,267 was also made for survey costs for a covenant on a property owned by Cleardale Station Limited. A Board member, Donna Field, is a director of Cleardale Station Limited. This property has been subsequently sold.

These payments occurred under terms consistent with the National Trust's policy for financial contribution to the establishment of new covenants and equivalent to those that prevail in arm's length transactions in similar circumstances. The Board members disclosed an interest and did not take part in the decision process.

14. Events after balance date

Subsequent to 30 June 2017, the National Trust was advised it had been left a bequest of \$2,542,433 to be applied for the general purposes of the National Trust. The Board will be considering a range of options in how best to use this legacy money.



INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF QUEEN ELIZABETH THE SECOND NATIONAL TRUST'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

Opinion

We have audited the financial statements of the Trust on pages 30 to 41, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and expenditure, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies; and

In our opinion:

- the financial statements of the Trust on pages 30 to 41:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2017; 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 11 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Directors and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Directors for the financial statements

The Directors are responsible on behalf of the Trust for preparing financial statements that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Directors are responsible for such internal control as they determine is necessary to enable them to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible on behalf of the Trust for assessing the Trust's ability to continue as a going concern. The Directors are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Trust, or there is no realistic alternative but to do so.

The Director's responsibilities arise from the Crown Entities Act 2004 and section 32 of the Queen Elizabeth the Second National Trust Act 1977.

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists.

Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error.

Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements.

For the budget information reported in the financial statements, our procedures were limited to checking that the information agreed to the Trust's 2016/17 Budget Summary.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Trust and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Directors are responsible for the other information. The other information comprises information other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if uncorrected, to take appropriate action to bring the matter to the attention of users for whom our auditor's report was prepared.

Independence

We are independent of the Trust in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Trust.



David Borrie
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand



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