

Proposed Amendments to the Hawke's Bay Regional Council 2015-25 Long Term Plan

Significant Change to the Intended Level of Service Provision for the Activity "Water Management"

Section 97(1)(a) of the Local Government Act 2002, requires that any decision to significantly alter the intended level of service provision for any significant activity undertaken by or on behalf of the local authority, must be reflected in a Long Term Plan (LTP).

The proposal set out following is not covered in Hawke's Bay Regional Council (HBRC) 2015-25 LTP and therefore requires an amendment and special consultation under the Act.

1. Details of Proposal (Option A)

Council has approved, in principle and subject to consultation, entering into a 35 year water user contract, effective from 2016-17, with Ruataniwha Water Ltd Partnership (RWLP) to provide:

- 1.1. 34 million cubic metres of water at zero cost from 2019-20 for seven years, up until and including the year 2025-26. It is assumed that the Ruataniwha Dam will be completed by 2019-20.

The proposal assumes the following volumes:

2019-20	8 million cubic metres
2020-21	6 million cubic metres
2021-22	4 million cubic metres
2022-23	4 million cubic metres
2023-24	4 million cubic metres
2024-25	4 million cubic metres
2025-26	<u>4 million cubic metres</u>
Total	34 million cubic metres

- 1.2. From 2026-27 and subsequent years of the 35 year user contract, the purchase of 4 million cubic metres per year of water on the same terms as Foundation Water Users, calculated only on the volumetric charge and excluding the variable energy charge. This is equivalent to a cost of \$940,000 per year in 2016 dollars.
- 1.3. The purchase of these flows is in addition to the 4 million m³ of water required by the Ruataniwha Water Storage Scheme (RWSS) for flushing flows as part of its resource consent conditions. These flushing flows are provided each year from the RWSS at nil cost.
- 1.4. Information supplied by Hawke's Bay Regional Investment Company Ltd (HBRIC Ltd) estimates that if all of the water was paid for, including the 34 million cubic metres provided at zero cost, then the 35 year value of the water, if sold to other foundation users, would be approximately \$44.5 million (exclusive of energy costs of \$7.7 million). HBRIC Ltd has advised that the cost of the current proposal to Council will be \$36.9 million. Revenue foregone by RWLP to deliver flows to Council for environmental benefits equates to approximately \$7.6 million – a proxy value for the environmental benefits delivered.
- 1.5. The earlier the uptake (i.e. water sales) is achieved, the earlier HBRIC Ltd receives cash distributions. By adopting the proposal the uptake curve is moved forward in time, which will benefit HBRIC Ltd as in the early years of scheme operations and at lower levels of uptake the equity returns are allocated in a greater proportion to institutional equity.

- 1.6. Funding for the environmental water flows will be sourced from HBRC's operating budget, which receives dividends from both Napier Port and the RWSS (should it proceed) and are re-applied to, amongst other things, environmental projects.

2. **Reasons for this Proposal**

Objective TT1 (a) in Change 6 (Tukituki Catchment policy) requires Council to maintain or enhance the habitat and health of ecosystems, macroinvertebrates, native fish and trout. The provision of additional water for environmental flows would be a significant step towards achieving this objective. This initiative also has the potential to support Objective TT1 (d) by protecting the significant values of wetlands, in this case Lake Whatuma.

Examples of environmental benefits that will provide for the objectives noted above, within the Tukituki Catchment, are as follows.

- 2.1. **Augmenting flows in small streams** – Generally speaking small streams benefit more from small flow increases than large rivers. Therefore flow augmentation for the Papanui or Mangatarata (Whatuma fed), would probably make more difference than augmenting the Tukituki River itself. Benefits for the stream would include increased oxygen concentration for the duration of augmentation which has beneficial effects for aquatic life. Under this proposal the streams could be augmented during summer low flow periods.
- 2.2. **Lake Whatuma reduced water residence time and flushing** – Lake Whatuma is one of the region's most important wetlands. The Lake is shallow, retains significant sediment and regularly suffers from cyanobacterial blooms. In extremely dry summers the lake has been known to practically dry out. The Mangatarata Stream is fed by Lake Whatuma, so flow augmentation through Lake Whatuma into the Mangatarata Stream would benefit both. Benefits for the lake include reduced residence time to reduce risk of cyanobacterial bloom, maintenance of water levels in extremely dry summers and reduced phosphorous concentrations through flushing.
- 2.3. **Increased flushing flows for the mainstem rivers** - Another use of the surplus volumes would be to support and add to consented flushing flows for the Makororo, Waipawa and Tukituki rivers. In effect these flows mimic natural freshes in the river in a way that reduces and removes excess algae. Excess algae is one of the key environmental issues in the Tukituki River.

The surplus water could be used to trial releases of larger magnitudes/durations to test their effectiveness. Alternatively, they could simply allow for more flushing releases per year at the same volumes provided by the RWSS resource consent conditions.
- 2.4. **Temperature refugia** – During summer water temperatures get high in the Tukituki. Increasing flow would increase the distance it takes for the river to heat up to equilibrium with air temperatures. Global temperatures have risen over the last century and will continue to rise. Any tools we have to increase the length of viable habitat for cold water species will be beneficial. Such releases would take the form of increased low flows during the hottest times of year.
- 2.5. **Opening/enlarging of river mouths** – Closed river mouths can reduce fish access and impair estuarine water quality. Flushing flows could be a useful tool in dealing with this problem, and could also be combined with digging at the mouth and natural flow events.

3. **Other Benefits from this Proposal**

Other benefits derived from this proposal in addition to environmental benefits are:

- 3.1. Achieves security of supply because a contractual commitment has been signed to provide the water for environmental flows.
- 3.2. The Ruataniwha Dam is assumed to be completed in 2019-20, however subsequent to this during the period when Council is provided with water at no charge (a period of 7 years 2019-20 to 2025-26), a more detailed assessment of the environmental benefits that might be achieved,

together with which environmental projects would benefit most, will be developed by Council. These investigations will enable Council to identify and precisely prioritise use of this water.

- 3.3. The proposal ensures that environmental flows are available to the Council at the foundation water price (17.5 cents from 2019-20 to 2024-25, and 23.5 cents thereafter, all these prices adjusted for CPI (assumed to be 2% per annum when estimating the costs of the proposal). Making a commitment to purchase now will ensure that Council is not left open to the risk of purchasing water at market rates from 2026-27 and subsequent years.
- 3.4. If the 4 million cubic metres of water is not required from 2026-27 then there would be an opportunity, depending on the market at the time, to sell this water to other water users.

4. **Conditions that need to be met for Council to Proceed with this Proposal**

Council's "in principle" approval of this proposal is subject to:

- 4.1. The Ruataniwha Water Storage Scheme proceeding;
- 4.2. Advice from Deloitte, as part of Council's due diligence process, that it is satisfied that the cash flows from the RWSS will provide for the costs of the purchase of 4 million cubic metres of water per annum from Year 11 onwards; and
- 4.3. Confirmation from staff and HBRIC Ltd that the net position of dividends paid by HBRIC Ltd less the cost of the Council flows will be consistent with the HBRIC Ltd Statement of Intent, which recognises both environmental, economic and financial returns from Council investments.

5. **Risks of this Proposal**

A commitment to purchase 4 million cubic metres for environmental flows from 2026-27 would need to be made before the optimum level of environmental flow volumes have been identified, however HBRC believes that whatever amount of water is used, there will be equal environmental benefits. If the water was not required for environmental flows, then there would be a risk that a suitable buyer for the water may not be found.

6. **Analysis of Other Reasonably Practical Options**

Option B

The option is to purchase additional water in future at market rates. This would result in HBRC competing with other water users to purchase 4 million cubic metres of water for environmental flows from year 4 (2019-20) through to year 35.

6.1. **Advantages of This Option**

- 6.1.1. This option to purchase flows would enable a decision to be made year by year, according to the need for such water flows for environmental purposes. In the years when water is not purchased, this investment funding can be used for other Council purposes.

6.2. **Disadvantages of This Option**

- 6.2.1. If up to 4 million cubic metres is purchased each year then the cost over the 32 years of purchasing water would be far more variable because the price to purchase the water would be based on the market price for that year.
- 6.2.2. That long term planning for the supply and use of water would be subject to uncertainty due to annual funding and consultation decisions being required.
- 6.2.3. That the beneficial effects on HBRIC Ltd cash-flows in early years are not available, resulting in reduced dividends to HBRC.

Option C

6.3. Current Situation Analysis

6.3.1. This option would give no opportunity to access flows for additional environmental enhancement via the Ruataniwha scheme.

6.4. Advantages of this Approach

6.4.1. This option would have no cost implications to HBRC.

6.5. Disadvantages of this Approach

6.5.1. This would be a lost opportunity to access flows for environmental enhancement.

7. Alterations Required to be made to Long Term Plan 2015-2025

To give effect to Option A, the LTP 2015-25 must to be altered in the following parts to give effect to the Statement of Proposal under this proposed amendment.

7.1. Changes in the level of service for the activity “Water Management” as a group of activities under Regional Resources.

7.2. Clarification in the Financial Strategy.

7.3. Changes in the financial accounts, specifically the balance sheet and operating statement from the year of water uptake (2019-20).

The amended sheets follow and the adjustments to the original LTP 2015-2025 are highlighted.

3.3 Targeted Returns on Proposed Investments

The proposed investments will be made progressively during the 10 years of this LTP and set out below are the estimated returns on these projects that HBRC expects to receive from these investments.

Returns on funding provided for these new investments are assumed to be:

- Ruataniwha 6%
- Ngaruroro 6%
- Napier Gisborne Rail 6%
- Forestry 6%

HBRC will only approve funding of these investments after receiving a sound business case which will include a comprehensive risk analysis. Business cases will be subject to independent peer review.

Summary:

In relation to the Ruataniwha investment, HBRC proposes to purchase water at the foundation water price, by way of a Foundation Water User Agreement, to ensure additional flows in the Tukituki catchment are available for environmental purposes. At this time it is Council's view that a portion of Council's financial returns would ultimately be used for the purpose of enhanced environmental benefits within the Tukituki catchment, over and above the benefits provided by the 4M m³ flushing flows provided by the RWSS resource consent conditions. It is not proposed that the cash flow element of this arrangement would be triggered until the 2026-27 year, as the water flows proposed from 2019-20 to 2025-26 would be provided free by the RWSS.

3.4 Funding for the Above Strategic Investment Initiatives

HBRC will provide funding for the investment initiatives by drawing down on the cash reserves set aside for investment (at the commencement of this LTP a sum of \$66m will be on deposit), sale of Wellington leasehold land (the sale is scheduled in the LTP for year 3) and borrowings.

LTP Amendments

Regional Resources Activity 3 – Water Management

Proposed Service Levels and Performance Targets Activity 3–Water Management				
Level of Service Measure	Current Performance	Performance Targets	Required Actions to achieve Targets 2016-17	Required Actions to achieve Targets 2017-18
Knowledge available to inform water quantity related habitat enhancement projects in the Tukituki catchment.	<ul style="list-style-type: none"> - Regional water quantity and quality objectives and guidelines are contained in the Regional Resource Management Plan (RRMP) - Change 6 (Tukituki catchment) Objective TT1 intent to maintain or enhance the habitat and health of aquatic ecosystems - Water quantity and quality limits required to maintain identified values, including aquatic habitat, established for Plan Change 6 (Tukituki catchment) 	<p>2017-19</p> <ul style="list-style-type: none"> - Identification of a range of uses of environmental flow water for improving or maintaining habitat and ecological health of the Tukituki catchment - Quantification of the benefits of environmental flow water towards achieving habitat and ecosystem objectives - Establishment of programme for use of water acquired through a Water User Agreement with RWLP <p>2019-25</p> <p>Implementation and monitoring, evaluation, review and improvement cycle to assess benefits of flow regime and potential amendments to achieve habitat and ecosystem objectives. Initiation of pilot projects to trial identified uses of environmental flows. Monitor, evaluate, review and improve identified projects.</p>	Preliminary planning set up to establish a programme that will determine the optimum environmental use of water acquired through a Water User Agreement with the RWLP	<p>Commencement of project with focus on:</p> <ul style="list-style-type: none"> - Development of criteria for identifying environmental and ecosystem enhancement projects with the Tukituki - Assessment of the projects and quantification of the potential benefits of the use of environmental freshwater flows for habitat and ecosystem enhancement

LTP Amendments

Prospective Statement of Comprehensive Revenue and Expense

LTP Amendment											
	Note	Year 1 LTP 2015/16 (\$'000)	Year 2 LTP 2016/17 (\$'000)	Year 3 LTP 2017/18 (\$'000)	Year 4 LTP 2018/19 (\$'000)	Year 5 LTP 2019/20 (\$'000)	Year 6 LTP 2020/21 (\$'000)	Year 7 LTP 2021/22 (\$'000)	Year 8 LTP 2022/23 (\$'000)	Year 9 LTP 2023/24 (\$'000)	Year 10 LTP 2024/25 (\$'000)
REVENUE											
Revenue from activities	1	6,168	6,381	6,488	6,912	7,378	8,705	7,722	7,636	7,616	7,480
Revenue from rates	2	16,584	17,527	18,491	19,160	19,878	20,653	21,282	21,960	22,698	22,886
Revenue from grants		2,983	3,076	3,150	3,076	3,159	3,243	3,330	3,425	3,523	3,631
Other revenue	3	13,492	16,122	16,521	17,406	18,550	19,737	20,105	20,476	21,114	21,828
Fair value gains on investments	7(a)	1,589	1,444	1,540	1,614	1,728	1,729	1,817	1,991	2,118	2,253
Reduction in ACC Leasehold Liability		1,263	1,256	1,346	1,493	1,478	1,438	1,382	1,333	1,247	1,173
Total Operating Revenue		42,079	45,806	47,536	49,661	52,171	55,505	55,638	56,821	58,316	59,251
EXPENDITURE											
Expenditure on activities	1	36,250	36,443	37,557	37,943	39,115	40,015	41,882	41,746	43,100	44,401
Finance costs	1	2,796	2,874	3,171	3,632	4,687	5,546	5,399	5,274	5,089	4,940
Depreciation & amortisation expense	5	2,349	2,486	2,595	2,640	2,757	2,849	2,829	2,794	2,734	2,696
Fair value losses		-	-	-	-	-	-	-	-	-	-
Other expenditure		-	-	-	-	1,260	961	653	667	855	932
Total Operating Expenditure		41,395	41,803	43,323	44,215	47,819	49,371	50,763	50,481	51,778	52,969
OPERATING SURPLUS											
Operating Surplus Before Income Tax		684	4,003	4,213	5,446	4,352	6,134	4,875	6,340	6,538	6,282
Income tax expense		-	-	-	-	-	-	-	-	-	-
Operating Surplus After Income Tax		684	4,003	4,213	5,446	4,352	6,134	4,875	6,340	6,538	6,282
OTHER COMPREHENSIVE REVENUE AND EXPENSE											
Gain / (loss) in revalued assets		597	22,353	-	1,090	17,859	-	1,423	23,650	-	1,620
Gain / (loss) in available-for-sale financial assets		-	-	18,823	-	-	26,257	-	-	32,747	-
Total Other Comprehensive Revenue and Expense		597	22,353	18,823	1,090	17,859	26,257	1,423	23,650	32,747	1,620
TOTAL COMPREHENSIVE REVENUE AND EXPENSE		1,281	26,356	23,036	6,536	22,211	32,391	6,298	29,990	39,285	7,902
STATEMENT FOR GENERAL FUNDING POSITION											
CAPITAL EXPENDITURE											
Property, plant, equipment & intangible assets	5	2,577	1,884	2,031	1,807	3,499	1,422	1,481	1,282	1,223	733
Infrastructure assets - flood & drainage		762	1,453	2,522	2,775	2,536	4,177	2,377	2,952	2,957	2,956
Infrastructure assets - open spaces & regional assets		160	160	160	143	143	143	143	143	143	143
Forestry assets		37	35	34	-	126	157	245	65	7	-
Investments		0	0	0	-	-	-	-	-	-	-
Community net lending from reserves		-	-	-	-	-	-	-	-	-	-
Clean & solar heat net lending		1,498	1,260	2,342	1,311	960	(2,757)	(2,676)	(2,519)	(2,257)	(1,908)
Advances to regional investment company		39,194	23,681	1,666	-	25,000	-	-	-	-	-
Advances to Napier / Gisborne rail lease		5,342	-	-	-	-	-	-	-	-	-
Public debt repayments	4(a)	3,526	3,924	3,801	4,171	4,594	4,549	4,071	3,588	3,275	2,643
Total Capital Expenditure		53,096	32,397	12,556	10,207	36,858	7,691	5,641	5,511	5,348	4,567
RESERVE AND PUBLIC DEBT FUNDING											
Reserves funding	6	50,039	27,647	5,692	3,264	7,657	2,964	2,910	1,419	916	227
Public debt funding	4(a)	4,744	3,479	5,553	4,645	26,832	828	468	468	468	602
Leasehold annuity funding		-	-	-	-	-	-	-	-	-	-
Fair value gains on investments	7(a)	(1,589)	(1,444)	(1,540)	(1,614)	(1,728)	(1,729)	(1,817)	(1,991)	(2,118)	(2,253)
Fair value gains on other comprehensive income		(597)	(22,353)	(18,823)	(1,090)	(17,859)	(26,257)	(1,423)	(23,650)	(32,747)	(1,620)
Reduction in ACC Leasehold Liability		(1,263)	(1,256)	(1,346)	(1,493)	(1,478)	(1,438)	(1,382)	(1,333)	(1,247)	(1,173)
Water purchase liability		-	-	-	-	1,260	961	653	667	855	932
Total Reserve & Loan Funding		51,334	6,074	(10,463)	3,712	14,684	(24,671)	(591)	(24,420)	(33,873)	(3,285)
UNDERLYING SURPLUS / (DEFICIT)	8	(480)	32	16	40	37	29	66	59	64	50

LTP Amendments

Prospective Statement of Changes in Net Assets / Equity

LTP Amendment											
	Year 1 LTP 2015/16 (\$'000)	Year 2 LTP 2016/17 (\$'000)	Year 3 LTP 2017/18 (\$'000)	Year 4 LTP 2018/19 (\$'000)	Year 5 LTP 2019/20 (\$'000)	Year 6 LTP 2020/21 (\$'000)	Year 7 LTP 2021/22 (\$'000)	Year 8 LTP 2022/23 (\$'000)	Year 9 LTP 2023/24 (\$'000)	Year 10 LTP 2024/25 (\$'000)	
Net Assets / Equity at the Start of the Year	480,643	481,924	508,280	531,316	537,852	560,063	592,454	598,752	628,742	668,027	
Total Comprehensive Revenue and Expense	1,281	26,356	23,036	6,536	22,211	32,391	6,298	29,990	39,285	7,902	
	1,281	26,356	23,036	6,536	22,211	32,391	6,298	29,990	39,285	7,902	
Net Assets / Equity at the End of the Year	481,924	508,280	531,316	537,852	560,063	592,454	598,752	628,742	668,027	675,929	

LTP Amendments

Prospective Statement of Financial Position

LTP Amendment											
	Year 1 LTP 2015/16 (\$'000)	Year 2 LTP 2016/17 (\$'000)	Year 3 LTP 2017/18 (\$'000)	Year 4 LTP 2018/19 (\$'000)	Year 5 LTP 2019/20 (\$'000)	Year 6 LTP 2020/21 (\$'000)	Year 7 LTP 2021/22 (\$'000)	Year 8 LTP 2022/23 (\$'000)	Year 9 LTP 2023/24 (\$'000)	Year 10 LTP 2024/25 (\$'000)	
ASSETS											
Non Current Assets											
Property, plant & equipment	19,467	19,530	19,212	19,844	21,093	20,337	21,096	20,276	19,490	19,790	
Intangible assets	4,231	3,904	4,047	4,102	3,912	3,693	3,407	3,212	3,060	3,066	
Infrastructure assets	152,519	175,181	177,276	179,607	198,946	202,618	204,490	229,805	232,180	234,554	
Investment property	59,058	47,163	48,342	49,599	50,988	52,467	54,041	55,770	57,610	59,569	
Forestry assets	5,611	5,985	6,380	6,314	5,991	4,415	4,295	4,622	4,907	5,201	
Finance assets	15,285	15,286	15,285	15,285	15,284	15,282	15,281	15,281	15,281	15,281	
Investment in council-controlled organisations	187,442	258,944	277,768	277,768	307,766	334,025	334,025	334,025	366,773	366,771	
Advances to council-controlled organisations	51,153	3,332	4,998	4,998	-	-	-	-	-	-	
Napier / Gisborne rail lease	5,457	6,239	6,239	6,239	6,851	6,851	6,851	7,633	7,633	7,633	
Total Non Current Assets	500,223	535,564	559,547	563,755	610,831	639,687	643,485	670,623	706,933	711,864	
Current Assets											
Inventories	46	46	46	46	46	46	46	46	46	46	
Trade & other receivables	6,884	6,884	6,884	6,884	6,884	6,884	6,884	6,884	6,884	6,884	
Finance assets	30,985	20,304	18,638	18,638	18,638	18,638	18,638	18,638	18,638	18,638	
Cash & cash equivalents	7,426	7,422	8,546	9,856	7,010	6,347	4,514	3,580	3,358	4,045	
Total Current Assets	45,341	34,656	34,114	35,424	32,578	31,915	30,082	29,148	28,926	29,613	
TOTAL ASSETS	545,564	570,219	593,661	599,178	643,409	671,602	673,567	699,771	735,858	741,477	
NET ASSETS / EQUITY											
Accumulated comprehensive revenue and expense	327,706	327,706	327,706	327,706	327,706	327,706	327,706	327,706	327,706	327,706	
Fair value reserves	9 91,797	114,150	132,973	134,063	151,922	178,179	179,602	203,252	235,999	237,619	
Other reserves	9 62,421	66,424	70,637	76,083	80,435	86,569	91,444	97,784	104,322	110,604	
Total Net Assets / Equity	481,924	508,280	531,316	537,852	560,063	592,454	598,752	628,742	668,027	675,929	
LIABILITIES											
Non Current Liabilities											
Borrowings	18,418	18,096	19,478	19,530	41,812	38,569	35,449	32,642	30,467	30,001	
ACC Leasehold Liability	31,680	30,334	28,841	27,363	25,925	24,543	23,210	21,963	20,790	19,599	
Water purchase liability					1,260	2,221	2,874	3,541	4,396	5,328	
Provisions for other liabilities & charges	893	893	893	893	893	893	893	893	893	893	
Total Non Current Liabilities	50,991	49,323	49,212	47,786	69,890	66,226	62,426	59,039	56,547	55,821	
Current Liabilities											
Trade & other payables	6,529	6,529	6,529	6,529	6,529	6,529	6,529	6,529	6,529	6,529	
Borrowings	3,924	3,801	4,171	4,594	4,549	4,071	3,588	3,275	2,643	1,067	
ACC Leasehold Liability	1,256	1,346	1,493	1,478	1,438	1,382	1,333	1,247	1,173	1,192	
Provisions for other liabilities & charges	940	940	940	940	940	940	940	940	940	940	
Total Current Liabilities	12,649	12,616	13,133	13,541	13,456	12,922	12,390	11,991	11,285	9,728	
Total Liabilities	63,640	61,939	62,345	61,327	83,347	79,148	74,816	71,030	67,831	65,549	
TOTAL NET ASSETS / EQUITY AND LIABILITIES	545,564	570,219	593,661	599,178	643,409	671,602	673,567	699,771	735,858	741,477	

LTP Amendments

HBRC Funding Impact Statement

LTP Amendment	Year 1 LTP 2015/16 (\$'000)	Year 2 LTP 2016/17 (\$'000)	Year 3 LTP 2017/18 (\$'000)	Year 4 LTP 2018/19 (\$'000)	Year 5 LTP 2019/20 (\$'000)	Year 6 LTP 2020/21 (\$'000)	Year 7 LTP 2021/22 (\$'000)	Year 8 LTP 2022/23 (\$'000)	Year 9 LTP 2023/24 (\$'000)	Year 10 LTP 2024/25 (\$'000)
Sources of operating funding										
General rates & uniform annual general charges	3,130	3,227	3,379	3,701	3,973	4,287	4,460	4,627	4,820	5,016
Targeted rates	13,454	14,300	15,112	15,459	15,905	16,366	16,822	17,333	17,878	17,870
Subsidies & grants for operating purposes	2,983	3,076	3,150	3,076	3,159	3,243	3,330	3,425	3,523	3,631
Fees & charges	6,168	6,381	6,488	6,912	7,378	8,705	7,722	7,636	7,616	7,480
Interest & dividends from investments	10,593	13,325	14,015	14,311	15,001	15,911	16,611	17,452	18,083	18,781
Fines, infringement fees & other receipts	2,899	2,797	2,506	3,095	3,549	3,826	3,494	3,024	3,031	3,047
Total operating funding	39,227	43,106	44,650	46,554	48,965	52,338	52,439	53,497	54,951	55,825
Applications of operating funding										
Payments to staff & suppliers	36,250	36,443	37,557	37,943	39,115	40,015	41,882	41,746	43,100	44,401
Finance costs	2,796	2,874	3,171	3,632	4,687	5,546	5,399	5,274	5,089	4,940
Other operating funding applications	-	-	-	-	-	-	-	-	-	-
Total applications of operating funding	39,046	39,317	40,728	41,575	43,802	45,561	47,281	47,020	48,189	49,341
Surplus / (deficit) of operating funding	181	3,789	3,922	4,979	5,163	6,777	5,158	6,477	6,762	6,484
Sources of capital funding										
Subsidies & grants for capital purposes	1,184	1,484	1,790	2,203	2,554	2,757	2,675	2,519	2,258	1,909
Development & financial contributions	-	-	-	-	-	-	-	-	-	-
Increase / (decrease) in debt	1,219	(445)	1,752	474	22,238	(3,721)	(3,603)	(3,120)	(2,807)	(2,041)
Gross proceeds from sale of assets	275	13,184	198	158	270	196	250	151	152	76
Lump sum contributions	-	-	-	-	-	-	-	-	-	-
Other dedicated capital funding	-	-	-	-	-	-	-	-	-	-
Total sources of capital funding	2,678	14,223	3,740	2,835	25,062	(768)	(678)	(450)	(397)	(56)
Applications of capital funding										
Capital expenditure:										
- to meet additional demand	2,972	2,924	4,292	3,727	5,657	242	314	143	143	143
- to improve the level of service	763	968	1,841	2,046	2,145	2,175	2,224	2,259	2,238	2,314
- to replace existing assets	2,447	2,344	2,716	2,466	1,890	3,424	1,634	1,975	1,942	1,376
	6,182	6,236	8,849	8,239	9,692	5,841	4,172	4,377	4,323	3,833
Increase / (decrease) in reserves	(47,896)	(24,940)	(2,887)	(425)	(4,593)	110	234	1,585	2,035	2,595
Increase / (decrease) of investments	44,573	36,716	1,700	-	25,126	58	74	65	7	-
Total application of capital funding	2,859	18,012	7,662	7,814	30,225	6,009	4,480	6,027	6,365	6,428
Surplus / (deficit) of capital funding	(181)	(3,789)	(3,922)	(4,979)	(5,163)	(6,777)	(5,158)	(6,477)	(6,762)	(6,484)
Funding balance	0	0	0	0	(0)	0	0	(0)	0	0
Reconciliation from Funding Impact Statement to Statement of Comprehensive Revenue and Expenditure										
Surplus / (deficit) of operating funding (above)	181	3,789	3,922	4,979	5,163	6,777	5,158	6,477	6,762	6,484
Depreciation & amortisation expense	(2,349)	(2,486)	(2,595)	(2,640)	(2,757)	(2,849)	(2,829)	(2,794)	(2,734)	(2,696)
Reduction in ACC Leasehold Liability	1,263	1,256	1,346	1,493	1,478	1,438	1,382	1,333	1,247	1,173
Fair value gains on investments	1,589	1,444	1,540	1,614	1,728	1,729	1,817	1,991	2,118	2,253
Water purchase liability					(1,260)	(961)	(653)	(667)	(855)	(932)
Operating Surplus After Income Tax per Statement of Comprehensive Revenue and Expenditure	684	4,003	4,213	5,446	4,352	6,134	4,875	6,340	6,538	6,282

LTP Amendments

Financial Metrics

Set out in the table below are the financial metrics that assist in the evaluation of HBRC's financial performance over the years of the Plan.

Trends of Other Financial Metrics										
Metric	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Net Surplus Margin: (This metric shows the percentage of income retained by HBRC to fund capital expenditure, to meet repayments on debt and/or set aside to meet future contingencies).	1.74%	9.29%	9.44%	11.70%	8.89%	11.72%	9.30%	11.85%	11.90%	11.25%
Return on Investment Assets: (This metric shows the amount of interest and dividend income generated each year by HBRC's total investment asset base).	3.76%	4.47%	4.37%	4.59%	4.57%	4.57%	4.64%	4.70%	4.48%	4.61%
Rates to Total Revenue: (This metric shows the percentage of HBRC's total revenue that is collected through rates).	42.28%	40.66%	41.41%	41.16%	40.60%	39.46%	40.58	41.05%	41.31%	41.00%
General Rates to Total Rates: (This metric shows the percentage of HBRC's total rates revenue that is collected through general rates).	18.87%	18.41%	18.27%	19.32%	19.99%	20.76%	20.96%	21.07%	21.24%	21.92%
Capex to Total Cash Payments: (This metric shows the proportion of total cash payments that has been spent on fixed assets).	3.86%	4.19%	9.25%	9.36%	7.75%	10.25%	7.20%	7.95%	7.75%	6.87%
Finance Expense (Interest on Borrowings and payments to ACC for leasehold cashflows) to Total Operating Expenditure	6.75%	6.88%	7.32%	8.22%	9.80%	11.23%	10.64%	10.45%	9.83%	9.33%
Finance Expense (Interest in Borrowings only) to Total Operating Expenditure	3.27%	3.21%	3.27%	3.51%	5.19%	6.59%	6.00%	5.64%	5.14%	4.72%
Debt to Debt Plus Equity	10.29%	9.54%	9.22%	8.96%	11.63%	10.37%	9.60%	8.60%	7.62%	7.13%

LTP Amendments

Long-Term Plan Disclosure Statement for period commencing 1 July 2015

What is the purpose of this statement?

The purpose of this statement is to disclose the council’s planned financial performance in relation to various benchmarks to enable the assessment of whether the council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

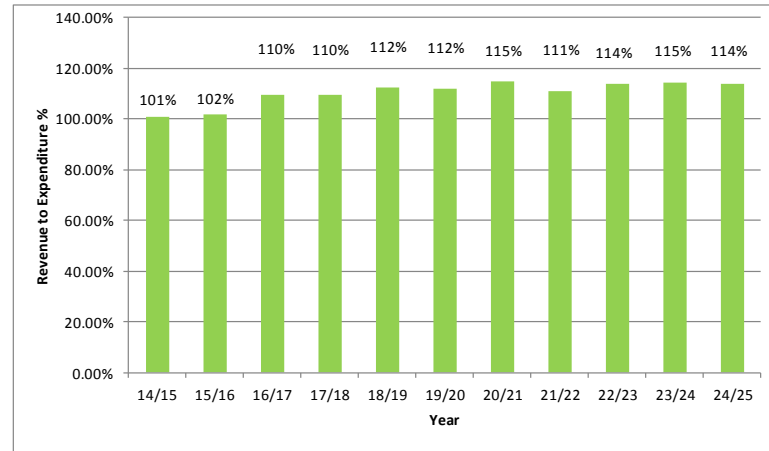
The council is required to include this statement in its long-term plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the **regulations**). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

Balanced Budget

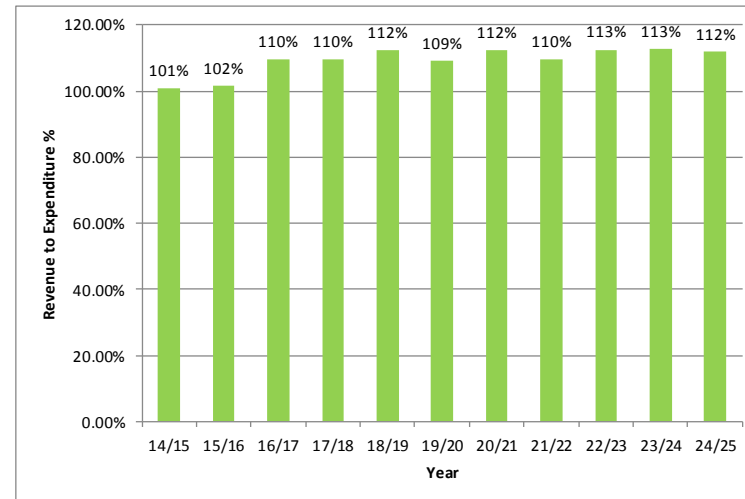
The following graph displays the council’s planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant and equipment) as a proportion of planned operating expenses (excluding losses on derivative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

The council meets the balanced budget benchmark if its planned revenue equals or is greater than its planned operating expenses.

LTP Benchmark



LTP Amendment Benchmark



Benchmark met

Benchmark not met



To the readers of the Hawke's Bay Regional Council's consultation document**Independent auditor's report on the proposed amendment of the
2015-25 Long-term Plan**

I am the Auditor-General's appointed auditor for the Hawke's Bay Regional Council (the Council). I have audited the information in the consultation document about the proposed amendment of the 2015-25 long-term plan (long-term plan), using the staff and resources of Audit New Zealand.

We have audited the proposed amendment as described on pages 4 to 6 of the consultation document.

We completed our audit on 30 March 2016.

Opinion

In our opinion:

- the information in the consultation document about the proposed amendment of the long-term plan provides an effective basis for public participation in the Council's decisions about the proposed amendment, because it:
 - fairly represents the reasons for and implications of the proposed amendment; and
 - identifies and explains the main issues and choices facing the Council and the Hawke's Bay region, related to the proposed amendment; and
- the information and assumptions underlying the information in the consultation document related to the proposed amendment are reasonable.

Basis of Opinion

Our audit work was carried out in accordance with the Auditor-General's Auditing Standards and:

- International Standard on Assurance Engagements (New Zealand) 3000 (Revised): *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*; and
- International Standard on Assurance Engagements 3400: *The Examination of Prospective Financial Information*.

Our audit work involved assessing the evidence the Council has to support the information and disclosures. To select appropriate audit procedures, we assessed the risk of material misstatement and the Council's systems and processes applying to the preparation of the proposed amendment.

We did not, as part of our audit work, evaluate the security and controls over the publication of the consultation document.

Independent Auditor's Report

Responsibilities of the Council and auditor

The Council is responsible for:

- meeting all legal requirements relating to its procedures, decisions, consultation, disclosures, and other actions associated with preparing and publishing the consultation document whether in printed or electronic form;
- having systems and processes in place to provide the supporting information and analysis the Council needs to be able to prepare a consultation document that meet the purposes set out in the Local Government Act 2002 (the Act); and
- ensuring that any forecast financial information being presented has been prepared in accordance with generally accepted accounting practice in New Zealand.

We are responsible for reporting on the consultation document, as required by section 93D of the Act.

We do not express an opinion on the merits of any policy content of the consultation document.

Independence and quality control

In carrying out our audit, we complied with the Auditor-General's:

- independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 (Revised); and
- quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended).

Other than our work in carrying out all legally required external audits and assurance engagements, we have no relationship with or interests in the Council or any of its subsidiaries.



Stephen Lucy
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand