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All these policies other than the accounting policies, are according to Council's own policy up for review by special consultation procedure every 3 years. Council have reviewed these policies and have made amendments to the investment policy and the revenue and financing policy, details of these changes and reasons for these changes are set out at the beginning of each of the policies in this part of the plan. No substantive amendments have been made to the other policies which are open for review and public comment.

Summary of Significant Accounting Policies

The Hawke's Bay Regional Council ("Council") is a regional local authority governed by the Local Government Act 2002. Council was formed on 1 November 1989.

Council has not presented group prospective financial statements because Council believes that the parent prospective financial statements are more relevant to users. The main purpose of prospective financial statements in the LTCCP is to provide users with information about the core services that Council intends to provide ratepayers, the expected cost of those services and as a consequence how much Council requires by way of rates fo fund the intended levels of service. The level of rates funding required is not affected by subsidiaries except to the extent that Council obtains distributions from, or further invests in, those subsidiaries. Such effects are included in the prospective financial statements of Council.

The prospective financial statements presented are therefore those of Council for the ten consecutive year period beginning on 1st July 2006 and have been prepared in accordance with Sections 93, 95 and 111 of the Local Government Act 2002.

The principal accounting policies applied in the preparation of these prospective financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1. Basis of Preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand for public benefit entities adopting New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and applicable New Zealand Financial Reporting Standards. The statements have been prepared under the historic cost convention, as modified by the revaluation of land and buildings, infrastructure assets, available-for-sale financial assets, financial assets and liabilities at fair value through profit and loss and investment property. Council's functional currency is New Zealand dollars (NZD) and the statements have been presented in thousands of NZD exclusive of New Zealand Goods and Services Tax (GST). Trade accounts payable and receivable are stated at GST inclusive amounts.

2. Inventories

Inventories are stated at the lower of cost (using the weighted average cost method) and net realisable value.

3. Trade Receivables

Trade receivables are recognised initially at fair value and subsequently remeasured each balance sheet date at amortised cost using the effective interest method less provision for impairment.

4. Plant, Property and Equipment

i) Operational Assets

Council land and buildings are shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by independent, professionally qualified valuers on the basis of market information.

Hydrological equipment is shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by suitably experienced Council employees, on the basis of depreciated replacement cost. Independent, professionally qualified valuers review all such valuations.

All other operational assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The costs of assets constructed by Council include the cost of all materials used in construction, direct labour on the project and an appropriate amount of directly attributed costs. Costs cease to be capitalised as soon as the asset is ready for productive use.

ii) Infrastructure Assets

Infrastructure assets are tangible assets that are necessary to fulfil Council's obligations in respect of the Soil Conservation and Rivers Control Act 1941 and the Drainage Act 1908. Such assets usually show some or all of the following characteristics:

- They are part of a system or network that could not provide the required level of service if one component was removed;
- They enable Council to fulfil its obligations to the region's communities in respect of flood control and drainage legislation;
- They are specialised in nature and do not have alternative uses;
- They are subject to constraints on removal.

Infrastructure assets are shown at fair value less subsequent accumulated depreciation, based on periodic, but at least triennial, valuations by suitably experienced Council employees, on the basis of depreciated replacement cost. Independent, professionally qualified valuers review all such valuations.

iii) Subsequent Costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

iv) Revaluation Adjustments

Increases in carrying amounts arising from revalued assets are credited to revaluation reserves in equity. Decreases that offset previous increases of the same asset classes are charged against revaluation reserves in equity. All other decreases are charged to the income statement.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

v) Other Adjustments

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in revaluation reserves are transferred to the accumulated balance in equity.

5. Investment Property

Investment property is residential and commercial land and buildings held to earn rental income and for capital appreciation. Such property is carried at fair value, representing open market value determined annually by independent, professionally qualified valuers. A gain or loss in value is recorded in the income statement for the period in which it arises.

Under the Hawke's Bay Endowment Land Empowering Act 2002, rental income from endowment land in Hawke's Bay can only be used for the improvement, protection, management or use of Napier Harbour or Council's coastal marine area as defined in section 2 (1) of the Resource Management Act 1991. Unspent funds are held in the Coastal Marine Area Reserve Fund.

6. Forestry Crops

Forestry crops are measured at their fair value less estimated point-of-sale costs each balance sheet date by independent, professionally qualified valuers. Fair value is determined by the present value of expected net cash flows discounted by the current market-determined pre-tax rate. A gain or loss in value is recorded in the income statement for the period in which it arises.

7. Financial Instruments

Financial assets are designated at initial recognition into one of the four following categories set out below depending on the purpose for which the financial asset was acquired. At each balance sheet date, all financial asset designations are re-evaluated.

i) Financial Assets at Fair Value Through Profit or Loss

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term or are so designated by management. The category includes derivatives and has two sub-categories: financial assets held for trading, and those designated at fair value through the profit and loss at inception. Assets held in this category are classified as current assets if they are either held for trading, or are expected to be realised within 12 months of balance sheet date.

Financial assets in this category, including derivatives, are initially recognised at fair value and are measured at each balance sheet date at fair value. Realised and unrealised gains or losses in value are recorded in the income statement for the period in which they arise.

ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise, for example, when Council makes community loans. They are included in non-current assets except when maturities are shorter than 12 months from balance sheet date.

Financial assets in this category are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or use. At each balance sheet date these financial assets are measured at amortised cost using the effective interest method. Realised and unrealised gains or losses in value are recorded in the income statement for the period in which they arise.

iii) Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management have a positive intention and ability to hold to maturity.

Financial assets in this category are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or use. At each balance sheet date these financial assets are measured at amortised cost using the effective interest method. Realised and unrealised gains or losses in value are recorded in the income statement for the period in which they arise.

iv) Available-For-Sale Assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or are not classified in any of the other categories. They are included in non-current assets unless there is an intention to dispose of the investment within 12 months of balance sheet date.

Available-for-sale financial assets are carried at fair value using a quoted price if an active market exists or using discounted valuation techniques if no active market exists. Any gain or loss in value is recognised directly in equity through the statement of changes in equity for the period in which it arises.

When an available-for-sale financial asset is sold, the accumulated fair value adjustments are included in the income statement.

At each balance sheet date, an assessment is made whether there is any objective evidence that a financial asset or group of financial assets is impaired. If objective evidence of impairment exists for available-for-sale financial assets, then any cumulative loss is transferred from equity to the income statement. Such a transfer is not reversible.

8. Intangible Assets

Intangible assets comprise acquired computer software licences. All intangible assets with finite lives are carried at the historical cost incurred to acquire and bring into use the specific software less accumulated depreciation.

9. Impairment of Non Financial Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

10. Depreciation

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Major depreciation periods are as follows:

Asset Category	***Years***
Buildings	10 - 100
Site Improvements	10 - 40
Vehicles	3 - 10
Plant & Equipment	3 - 25
Computer Equipment	4 - 10
Computer Software & Licences	3 - 5
Infrastructure Assets	25 - 70

No depreciation is provided for stop banks, berm edge protection, sea or river groynes, drainage works or unsealed roads. These assets are not considered to deteriorate over time and, therefore, will provide a constant level of service unless subjected to a significant natural disaster event.

11. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

12. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

13. Income Tax

Council's income is exempt from tax except for amounts derived from any council-controlled organisation or port company or subsidiary port company.

14. Employee Benefits

Short-term employee benefits including salaries and wages, annual leave and contributions to superannuation schemes are recognised when they accrue to employees and are measured at undiscounted cost.

The liability for accumulating sick leave is stated as the cost of sick leave that is expected to be used.

Long-term employee benefits including long service leave and retirement gratuities are recognised at the present value of Council's obligation at balance sheet date.

15. Provisions

Provisions are recognised when:

- Council has a present legal or constructive obligation as a result of past events, and
- It is more likely than not that an outflow of resources will be required to settle the obligation, and
- The amount has been reliably estimated.

Provisions are not recognised for future operating losses.

16. Revenue Recognition

Revenue comprises the fair value for the sale of goods and services, net of GST, rebates and discounts. Revenue is recognised as follows:

- Sales of goods are recognised when a product is sold to a customer. A sale occurs when the goods are delivered to the customer. The recorded revenue is the gross amount of the sales;
- Sales of services are recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service provided;
- Interest income is recognised on a time proportion basis using the effective interest method;
- Dividend income is recognised when the right to receive payment is established;
- Government grants are recognised as income when eligibility has been established by the grantor agency;
- Rates are recognised as income in the accounting period in which they are set and assessed.

17. Leases

Leases in which a significant proportion of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement net of any incentives received from the lessor on a straight-line basis over the period of the lease.

18. Financial Risk Management

Council's activities expose it to a variety of financial risks including:

- Market risk, including currency risk, fair value interest rate risk and price risk;
- Credit risk;
- Liquidity risk; and
- Cash flow interest-rate risk.

Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Council's financial performance. Council uses derivative financial instruments such as foreign exchange contracts to hedge certain exposures.

Council enters into foreign currency forward exchange contracts to hedge foreign currency transactions, when purchasing major property, plant and equipment and when payment is denominated in foreign currency.

Council has no significant concentrations of credit risk. It has policies in place to ensure that services are provided to customers with an appropriate credit history.

Collateral or other security in not required for financial instruments subject to credit risk.

19. Accounting for Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at the fair value at each balance sheet date.

Where Council determines that it will hedge a transaction Council documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as the its risk management objective and strategy for undertaking various hedge transactions.

Council also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

i) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Council accounts for hedges of foreign currency risk of a firm commitment as cash flow hedges.

ii) Derivatives that Do Not Qualify for Hedge Accounting

Certain derivatives instruments do not qualify for hedge accounting and changes in the fair value of these instruments are recognised immediately in the income statement.

Any changes in the fair value of interest rate swaps due to changes in interest rates are recognised in the income statement in the period in which they occur.

20. Foreign Currencies

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of the transaction. At balance sheet date foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these are included in the income statement.

21. Basis of Allocation of Council's Indirect Costs

Clearly identifiable costs are directly charged against each activity. Indirect costs are allocated to cost centres in the first instance under a variety of methods including:

- Floor area occupied
- Number of full time equivalent employees
- Assessed use of various services provided.

These costs are then charged to projects on a labour standard costing basis. The allocation unit is each working hour charged by employees at a pre-determined rate. Variances arising from this method will be allocated on the same basis as for costs of a fixed nature referred to above. Project costs are then summarised for each activity and group of activities.

22. Changes in Accounting Policies

Council has adopted accounting policies to comply with NZ IFRS and FRS-42, "Prospective Financial Statements" for all periods from 1st July 2006. Comparative financial information has been adjusted to comply with NZ IFRS. The only financial effects of the adjustments is to increase investment properties by $650,000, decrease biological assets by $619,000 and increase provisions for other liabilities and charges by $38,000 with a corresponding decrease in equity of $7,000 in opening balance sheet at 1st July 2006.

Significant Forecasting Assumptions

Introduction

In preparing the Long Term Council Community Plan for 2006/16 a number of assumptions and predictions about the future have been made. There are always inherent risks with such forecasting, therefore it is important that the main assumptions used in these forecasts are identified. This section has been designed to identify these assumptions, and explain the risks associated with such assumptions.

A number of additional assumptions are highlighted in the significant activity section of this Plan.

Date of Assumptions

The assumptions underlying this forecast financial information are as at 2 March 2006.

Cautionary Note

The actual results are likely to vary from the information disclosed, such variation may be material. The prospective financial information is prepared under Section 111 of the Local Government Act 2002. This information may not be suitable for use in any other capacity.

Council's Activities and Functions

Council will continue to perform its existing functions in accordance with current legislation and current Council policies. These functions will be primarily carried out to meet Council's statutory role and responsibilities and to help meet the community outcomes as developed by the community. This plan links community outcomes with Council's three future goals, which in turn are linked to Council's activities within each group of activities.

Inflation

All expenditure projections in the Income Statements and assets in the Balance Sheet are stated in 2006/07 dollars; however, for the year 2007/08 and subsequent years of the plan the following adjustments have been made to allow for the effect of inflationary pressures on Council's costs.

	Wages, Salaries and Other Salary Related Costs		External Expenditure		Assets*	
	Per Annum %	Cumulative %	Per Annum %	Cumulative %	Per Annum %	Cumulative %
2007/08	4.0	4.0	3.1	3.1	2.9	2.9
2008/09	3.9	8.1	2.9	6.2	2.7	5.7
2009/10	3.7	12.1	2.7	9.0	2.5	8.4
2010/11	3.5	16.0	2.5	11.7	2.3	10.9
2011/12	3.3	19.8	2.3	14.3	2.1	13.2
2012/13	3.2	23.6	2.1	16.7	1.9	15.4
2013/14	3.0	27.4	1.9	18.8	1.7	17.4
2014/15	2.8	30.9	1.6	20.8	1.5	19.1
2015/16	2.8	34.6	1.6	22.7	1.5	20.9

* These assets include infrastructure, land, buildings, hydrological assets and Port of Napier equity.

The above rates have been taken from the BERL forecasts of price level adjustors, dated August 2005. The adjustors for wages, salaries and other salary related costs are based on BERL forecast plus 1.5% to reflect Council's need to incur higher salary costs to recruit and retain staff with skills that are in short supply.

It is not anticipated that there will be any significant variations over the inflation provisions when Council re-tenders for maintenance and other contracts during the term of the plan.

It is noted that there may be a high level of uncertainty covering these assessments for inflation adjustments, especially in the later years of the plan. The estimate of the potential effects of that uncertainty is best illustrated by stating that for the year 2007/08 a move in these rates by 1% would result in an under or over provision for external expenditure of $190,000 and for wages and salaries of $86,000.

Regional income estimates, specifically leasehold rental and Port of Napier Ltd dividends, are set at the level that it is estimated will actually be received in each year of the plan.

Interest Rates

Information received from Council's bankers, the Bank of New Zealand, has indicated that the interest rate assumptions below for borrowing would be appropriate for inclusion on the plan:

- The interest rate on future term borrowing between 2006 and 2016 is estimated to be between 7% and 7.5%. Accordingly, a rate of 7.3% has been assumed in this plan.
  (Due to the low level of borrowings included in the plan, there is no significant risk to Council if interest rates were to change).

Information received from BERL in August 2005 stated that the AON Survey of Economists report predicted a 10 year Government bond yield inclusive of the Consumer Price Index inflation rate, to be in the range of 6.3% to 6.5% over the period of the plan. BERL further advised that the 10 year Government bond rate used by New Zealand Government Treasury in its long term fiscal model is a rate of 6% over the period of the plan. In the interests of conservatism the rate of 6% has been used in this plan.

- The interest rate on investments in short term bank deposits between 2006 and 2016 is estimated to be 6%.
  (Short and long term cash investments of Council are in the order of $20M at the time of the development of this plan, therefore, a 0.5% movement in interest rates from the assumed levels of interest rates in this plan would result in an annual exposure of plus or minus $100,000).

Funds available to Council for re-investment, from freeholding of leasehold land in Napier are able to be invested in longer term bank deposits or in property investments.

- The return on the investment of these sale of land funds between 2006 and 2016 is estimated to be 7%.
  (These investments of Council are in the order of $18M at the time of the development of this plan, therefore, a 0.5% movement in interest rates from the assumed levels of interest rates in this plan would result in an annual exposure of plus or minus $90,000).

Investments

a. Leasehold Endowment Land in Napier

The Hawke's Bay Endowment Land Empowering Act 2002 provides that, in order to use the rental income from this leasehold property for any purposes it so chooses, Council must first sell the land and then use the sale proceeds or the income generated from the sale proceeds for the purposes as specified in Council's Long Term Council Community Plan. If the land is not sold then Council must hold and use all the money received in relation to the land for the improvement, protection, management, or use of Napier Harbour or the Coastal Marine Area in Council's region.

An assessment has been made to determine the extent to which planned Council expenditure can be funded from the Coastal Marine Area reserve. This expenditure as stated must be incurred for the improvement, protection, management, or use of the Napier Harbour or the Coastal Marine Area in the region.

This Long Term Council Community Plan includes any qualifying operating and capital expenditure that can be funded from this reserve.

This plan provides for the continued sale of leasehold land, specifically up to $1.6M per year for each year of the plan.

At the time of developing this plan Council had accumulated approximately $20M from the freeholding of leasehold land at Napier. These funds are currently invested in short term investments with the trading banks; however, Council is continuing to search for other suitable investments for the use of these sale proceeds. This plan assumes that the return that would be received from an alternative investment of these funds would be at least the equivalent of the return currently received from the short-term investments in trading banks.

This investment is revalued on an annual basis using the projected movements in land values as supplied by Council's valuers, Telfer Young.

b. Leasehold Endowment Land in Wellington

This plan assumes that Council will be retaining ownership of the investment in leasehold land in Wellington for the duration of this plan.

This investment is revalued on an annual basis using the projected movements in land values as supplied by Council's valuers, Telfer Young.

c. Port of Napier Ltd

Council will continue to hold a 91.7% shareholding in the Port of Napier Ltd and receive dividends as forecast by the Port for the next 10 years.

The investment in PONL has been revalued every 3 years using the ‘asset’ price level indicators.

Council has established a 'Dividend Equalisation Reserve' to assist in smoothing the future dividend income from the Port of Napier Ltd. The purpose of this reserve is to minimise the need for Council to increase or decrease General Rates in response to fluctuations in Port dividend income.

The maximum sum to be held in the 'Dividend Equalisation Reserve' is presently set at 25% of the average forecast annual dividend from the Port of Napier Ltd to Council for 5 years commencing from the first year of each Annual Plan.

d. Forestry

The Tangoio Soil Conservation Reserve is owned by Central Government with Council having the responsibility to manage the reserve. Council manages 320ha of commercial forestry plantings in this reserve. Harvesting of 40ha is scheduled for

2006/07 with a further 40ha in 2007/08. Any surplus proceeds from Tangoio Forest harvesting remain in the reserve account.

Council also owns 130ha of commercial forestry in the Tutira Country Park.

These forestry investments are revalued annually; however, for the purposes of this plan the 'property' price adjusters as set out by BERL have not been used as it is not possible to predict the future movements and the prices over the period of the plan. This plan therefore assumes that the increase in the value of the forestry asset is limited to the silvicultural or roading work carried out on the forestry assets during each year of the plan.

e. Other Investment Property

Council are proposing to invest during 2006/07 up to $3M in an investment property in Hawke's Bay. The return on this investment is assumed to be between 9% and 10% per annum.

Assets

a. Infrastructure Assets

All infrastructure assets (river, flood control and drainage schemes) will be maintained in accordance with the maintenance and renewal schedules as set out in the asset management plans that have been prepared for each of the river, flood control and drainage schemes.

When determining the useful life of significant infrastructure assets it is generally recognised that many infrastructure assets either in part or in total, have an infinite life provided they are maintained at an appropriate level. These assets include: stopbanks, berm edge protection, sea or river groynes, drainage works, or unsealed roads. No depreciation is provided on these assets as they are considered not to deteriorate over time and therefore provide a constant level of service unless subjected to a significant flood event or unforeseen damage.

Infrastructure assets which have a finite life, have had their useful lives determined by Council Engineers and advice from appropriately qualified consultant valuers.

Assets with a finite useful life are depreciated over their useful life, and this depreciation is fully funded. Future replacement of these assets will be funded from infrastructure depreciation reserves and loan funding where appropriate.

For the purposes of projecting annual movement in the values of this asset category to fair value, the property price adjusters as set out by BERL have been used.

b. Plant, Property and Equipment

It is assumed that Council's other fixed assets continue to be provided at the level required to carry out Council's activities. Depreciation on operating assets will continue to be fully funded and combined with the proceeds of asset sales and loan funding where appropriate, will be sufficient to fund the ongoing programme of capital expenditure on operating assets.

The useful lives of each category of asset is shown in the Statement of Accounting Policies included in this plan.

For the purposes of projecting annual movement in the values of this asset category to fair value, the property price adjusters as set out by BERL have been used.

Regional Disaster Damage Reserve

It is assumed that Council's Regional Disaster Damage Reserve will not be drawn on within the 10 Year Plan period. Interest and dividends earned from investments in this reserve are used for Council's general funding purposes and are not reinvested to increase this reserve. This reserve has attained its targeted level of $3.75M but some individual scheme reserves have yet to reach their reserve targets.

In the event of a disaster, Council would be responsible for the first $3M to replace infrastructure assets damaged, insurance cover of a further $12M has also been established.

Reporting on Significant Changes

The Local Government Act 2002, Section 95 (5)(b) requires that subsequent Annual Plans identify any variation from the financial statements and funding impact statement which are included in Council's Long Term Council Community Plan for the year of that plan.

For the purposes of this reporting, the following material and significance levels will apply:

- Where the financial impact of any change exceeds 1.5% of total budgeted expenditure in that year;
- Other items of change where it is considered to be of interest to the public as the principal users of the plan. These items would include establishing new land drainage and flood control schemes, new projects, changes in future direction etc.

Policy on Development Contributions or Financial Contributions

Introduction

This policy is required under Sections 102 (4) (d) and 106 of the Local Government Act 2002.

Regional Councils have no power under the Local Government Act 2002 to require development contributions, therefore this policy specifically refers to only financial contributions.

Where Council grants a resource consent under the rules in one of its Regional Plans, it may impose a condition requiring that a financial contribution be made for the purposes specified in the Plan. Council has two Regional Plans, namely:

- Regional Resource Management Plan;
- Regional Coastal Plan.

The term 'financial contribution' is defined in section 108(9) of the Resource Management Act 1991 to mean:

a) "...a contribution of:

money; or

b) land, including an esplanade reserve or esplanade strip (other than in relation to a subdivision consent), but excluding Maori land within the meaning of the Maori Land Act 1993 unless that Act provides otherwise; or

c) a combination of money and land".

Further matters relating to financial contributions are contained in section 108(10) of the Act. Under this section of the Act, a consent authority must not include a condition in a resource consent requiring a financial contribution unless:

(a) the condition is imposed in accordance with the purpose specified in the Plan (including the purpose of ensuring positive effects on the environment to offset any adverse effect); and

(b) the level of contribution is determined in the manner described in the Plan.

Clause 5 of Part I of the Second Schedule to the Resource Management Act 1991 requires Council to specify in the Plan the circumstances when a financial contribution of money or land may be imposed, the manner in which the level of the contribution that may be imposed will be determined, and the general purposes for which the contribution may be used. Council has determined that it will impose financial contributions only in relation to resource consents granted for river bed gravel extraction, for the purpose of offsetting any adverse environmental effects from the gravel extraction activities.

Details of these charges are set out in Part 3 of this plan, Resource Management charges – charges for gravel extraction land use consents. The funding sought from these contributions is approximately $10,000 to $12,000 and is used to maintain accessways to gravel extraction areas.

Financial contributions will only be taken where other mechanisms will not adequately address community concerns or where circumstances of an individual case point clearly to a financial contribution as being the most appropriate option. All monies collected under the financial contributions regime of the Plan are collected by Council for use in such a manner as Council deems fit in order to avoid, remedy or mitigate, or offset, the adverse effects on the environment of the activity that the financial contribution is levied on. When deciding how those contributions should be levied or allocated, consideration will be given to matters contained in public submissions on a resource consent application.

The provisions, which reflect the requirements of the Act, are set out in the Regional Resource Management Plan. The provisions include:

- The circumstances when such contributions may be imposed;
- The purposes for which such contributions may be required and used;
- The manner in which the level of the contribution will be determined.

Copies of the Regional Plans are available by contacting Council or by reference to Council's website (www.hbrc.govt.nz).

Under S198 of the Act development contributions may only be required by territorial authorities.

Review of Policy

In accordance with the Local Government Act 2002, this policy will be reviewed and open for public comment via the special consultative procedure, on no less than a three yearly basis. It will also be reviewed and consulted on at any other time within a three year period when amendment to the policy may be required.

Investment Policy

The Local Government Act 2002 (the Act) Section 102 (6) states that amendments to the investment policy may only take place as an amendment to a Long Term Council Community Plan. Accordingly, the statement of proposal required by Section 83 (1) of the Act which includes the draft long term Council Community Plan also includes the amendments, to Council's investment policy, details of which are set out below.

a. A number of specific policies have been added to Section 2 "General Investment Policies". The changes and reasons for the changes are:
   - Recognition that property investments and other investments held for long term purposes are not only held for the benefit of current generations but also for the benefit of future generations.

     Council included this policy to clarify that decisions on investments should not be made for short-term consideration but must also consider the long-term implications for the community of every investment.

   - There is recognition that Council’s investments should preferably require minimal management, administration and specialist skills.

     This change has been made by Council to recognise that any investment of funds should be in investment types that require minimal supervision and administration by Council. The desire here is to ensure that Council's costs in administering the investment portfolio are minimised.

- There is clarification that investments should be diversified both in terms of investment type and location. Furthermore, there is recognition that preference will be given to appropriate investments within Hawke's Bay in recognition that such investments may provide wider economic and social benefits to the Hawke's Bay region.

  Council recognised that it is desirable to spread risk in relation to investment types. This, of course, applies to both location and the types of investment, e.g. property, bank deposits, etc. Council also recognised the desirability of investing in the Hawke's Bay region where opportunities arose, in order to ensure economic and social development in the region.

  This is directly linked to the community outcome of "a strong, prosperous and thriving economy".

b. Section 4 "Risk Assessment and Management"

An amendment has been included to recognise that Council in some instances matches foreign currency denominated purchases with forward exchange contracts.

Council has recognised through this amendment the desirability of ensuring that where there is to be a payment for a large purchase or service that will require payment in foreign currency, that where it is considered that there may be some fluctuations in the currency between the time of making the decision to purchase or commission a service and the payment for such purchase or service, then it may be desirable to match the foreign currency denominated payment with a forward exchange contract.

c. Section 6 "Sale of Investments and Use of Proceeds for Other Purposes"

This section covers the flexibility that Council has retained to sell some of Council's leasehold endowment property and use the proceeds for purposes other than reinvestment in other investments. Changes made to this section specify two instances where Council will not need to adopt a special consultative process when making decisions on expenditure from this fund. These instances are:

- Uses of the sale proceeds of $50,000 or less where these are made for one off projects.
- Where Council acquires land or enters into partnership for the development of further open space areas in rural settings, particularly those that are in environments that are of high ecological or landscape value extensively used by the public.

  The reason for the changes in this section is to ensure that the special consultative procedure is only used where the amount to be granted is considered to be significant to warrant the use of that consultation procedure. Furthermore, in regard to investment in open space areas, that Council can proceed on a timely basis to take advantage of opportunities when they present themselves, without the delay that a special consultative process would require.

  The changes to this note are consistent with the community outcome promoting "safe and accessible recreational facilities".

1. Introduction

This policy is required by Sections 102 (4) (c) and 105 of the Local Government Act 2002.

Council has a significant portfolio of investments comprising a 91.7% shareholding in Port of Napier Limited (PONL), leasehold endowment property, other property, forestry, equities, bonds, fixed interest and cash deposits.

The investments are held for a variety of reasons. When referring to "investments" Council has established the following definition:

"Investments are funds invested which are required to produce a financial return within acceptable risk parameters and with the retention of capital which is defined as the greater of either the historical cost of the investment or current balance sheet value of the investment".

Investments are held for a variety of reasons which include: assets acquired in the Local Government reform in 1989 which are particularly the shareholding in PONL and the leasehold endowment property; loan repayment sinking funds; depreciation reserves; disaster reserves; special purpose reserves and Council's required working capital.

Council has minimal debt so there is little to be gained from liquidating investments to repay debt. (Refer to Council's Liability Management Policy).

2. General Investment Policies

These are:

i. Overarching Policy

Council will optimise returns in the long term (i.e capital gain) while deriving a satisfactory ongoing investment yield but with each investment type subject to an acceptable level of risk, security and the fiduciary duty owed to Council's ratepayers.

ii. Specific general policies:

- The need to preserve and increase the value of Council's investments in Port of Napier Limited shareholding, leasehold endowment property, other property investments and other investments held for long term purposes not only for current generations but also for the benefit of future generations.
- The investment portfolio should preferably require minimal management, administration or specialist skills.
- Council's investments will, as appropriate, be diversified both in terms of investment type and location. However, preference will initially be given to appropriate investments within Hawke's Bay but which will still be required to meet the criteria contained in Council's investment policy. This preference is in recognition that such investments may also provide wider economic and social benefits to the region.
- As a prudent public authority Council will not hold investments for speculative gain.

3. Mix of Investments

The current mix of investments held by Council has been predominantly determined by those assets which Council acquired at the time of Local Government reform in 1989. Since that date, Council has regularly reviewed the proportion of its investments in various investment categories and has concluded that there is rationale and justification for maintaining the current mix. This predominantly revolves around the purpose of the shareholding in Port of Napier Limited and the specific statutory limitations on the sale of leasehold endowment property. In regard to other investment categories Council has adopted the mix of investments having consideration to: prudent stewardship; liquidity; risk; return; the purpose of the invested funds and in future will give consideration to investment in Hawke's Bay as referred to in 2 ii above.

4. Risk Assessment and Management

Risks associated with Council's investments are assessed and managed a follows:

- Council will not invest where there is a significant risk of decreased asset value;
- No more than 25% of the total investments of Council (excluding the investments in the Port of Napier Limited and Property Investments) will be invested in any one institution, group of institutions or investment type, other than institutions which are Government guaranteed (in which instance up to 100% may be invested);
- Council does not use financial derivatives to "hedge" against fluctuations in interest and equity indexes. In some instances Council matches foreign currency denominated purchases with forward exchange contracts;
- Council has appointed an external professional investment adviser to provide both the necessary market intelligence and independent monitoring to provide an overall assessment of investment markets and specifically to manage the funds invested in Council's Disaster Damage Reserve.

5. Acquisition of New Investments

New investments may be acquired under any of the existing specific investment categories (see 6 below). Investments will be made on the basis of the policies in 2, 3 and 4 above and the specific investment requirements. However, if a new category of investment is proposed and the amount to be invested is more than $5M then Council will deal with this matter through its Annual or Long Term Council Community Planning processes or a separate Special Consultative Process.

6. Sale of Investments and use of Proceeds for Other Purposes

The shareholding in Port of Napier Limited and other special purpose reserves which have been invested in various ways, have no flexibility to allow a sale or liquidation of any of these investments and a use of the funds for any other purpose than has been determined through the investment policy of Council.

However, in regard to Council's leasehold endowment property and other property, Council wish to retain the flexibility to sell some of these investments and to use the proceeds for purposes other than reinvestment in other investments. (Refer to Clause 1 page 10 for the definition of an investment). These purposes will be restricted to capital related projects or interest free loans which may be at the instigation of Council or other organisations in the region. When proposing such a course of action, Council will, subject to the exceptions stated below, adopt a special consultative process under the Act which will allow a fully inclusive decision making process with the Hawke's Bay community so as to extensively canvass their views and thoughts and seek their input into such proposals. There will be no requirement to carry out a special consultative process when:

i. Uses of sale proceeds of $50,000 or less are made for any one project;
ii. Council acquires land or enters into partnership for the development of further open space areas in rural settings and particularly those that are in environments that are of high ecological or landscape value or extensively used by the public.

It will be the objective of Council to indicate in either the Long Term Council Community Plan or the Annual Plan any proposals not covered by the exceptions above. There may be some occasions when the special consultative process surrounding such initiatives may not always coincide with these Council planning processes and so may occur as a standalone consultation exercise.

7. Specific Investments

i) Port of Napier Limited Shareholding

Holding and Value

Council holds 91.7% of the shares in Port of Napier Limited (PONL) which were last valued in September 2003 at $74.5 million. A valuation is carried out three yearly.

Purpose of the Investment

Council believes PONL is a strategic economic asset for the region. Consequently, the policy is to retain the present level of ownership in PONL as Council does not believe, at this stage, that there is an alternative owner who would ensure continued regional ownership and equitable distribution of the returns and benefits from the shareholding throughout the region. The shareholding also provides an ongoing source of non-rate revenue for Council.

Council's shareholding in PONL is a strategic asset under the Local Government Act 2002. Consequently any changes in its current level of shareholding is required to go through a full decision making process as per the Act.

Objectives

The principal objective of this shareholding is to retain regional public ownership. Council wish to see PONL operate as a successful commercial entity and, therefore, proactively input annually into the preparation of the Statement of Corporate Intent and the appointment of Directors. Council sets financial performance targets for PONL in the Statement of Corporate Intent which PONL reviews on the annual basis.

Currently the targets are as follows:

Net debt to net debt plus equity	20%- 40%
Earnings before interest and tax to interest expense	Greater than 3 times
Earnings before depreciation, interest and tax to total assets	15%
Operating surplus after tax to shareholders' funds	8%

PONL currently pays at least 75% of its after tax operating profits in dividends with this income being used to help fund those activities of Council that provide a region wide public good. This effectively means that the dividend income is used to subsidise the general rate.

Management and Reporting

In addition to setting financial performance targets through the Statement of Corporate Intent, Council also manage the shareholding by:

- Reviewing and commenting on the Statement of Corporate Intent;
- Appointing Directors with appropriate expertise;
- Receiving quarterly, half yearly and annual reports on financial and operating results;
- Being briefed at least twice annually by the Chairman of Directors and Chief Executive of the Port;
- Being advised in any intervening periods of new developments or significant departures from anticipated performance.

ii) Leasehold endowment property

Holding and Value

Council owns its leasehold endowment property within and around Napier City. The portfolio consists of approximately 1,245 leases and the most recent independent valuation (30 June 2005) valued the lessors (i.e Council's) interest in the land at $79.3 million.

Purpose of the Investment

Council acquired this property portfolio at the time of Local Government reform in 1989 and under the terms of each lease the properties can only be sold to lessees. Therefore, unless lessees are willing to freehold their properties at fair value, then Council is committed to continuing to own them. The portfolio itself provides an ongoing source of non-rate revenue for Council and ensures that this endowment that was established over the last 150 years continues to benefit the Hawke's Bay region.

Objectives

Each lease is overseen in accordance with the individual lease agreements. Ground rental is set predominantly at 5% of the land value, with the rent being reviewed every 21 years. Subsequent to 2011 annual rental will be set strictly in accordance with the terms of the lease which will be at either 5% of land value or at 'fair annual ground rental'.

The provisions of the Hawke's Bay Endowment Land Empowering Act 2002 (the Endowment Act) also govern the management of the portfolio. This Endowment Act provides that in order to access the funds for general purposes, Council must first sell the endowment (ie: individual leases) and then use the sale proceeds or the income generated from the investment of the sale proceeds for general purposes as specified in the Long Term Council Community Plan.

Furthermore, the Endowment Act provides that where the endowment leasehold property is not sold then Council must hold and use all the money received in relation to the land for the improvement, protection, management, or use of Napier Harbour or the Coastal Marine Area in Council's region.

The Endowment Act did provide for one exception to the above, namely that 50% of the leasehold property fund held in reserve at the commencement of the Endowment Act and the leasehold rentals received by Council on the commencement of the Endowment Act and up to 1 July 2003 may be used for specific regional and district projects as specified in Council's Long Term Council Community Plan. This reserve held $589,000 at 30 June 2005.

An independent assessment is undertaken annually to determine how much of the rental income from leasehold endowment property can be applied each year for the improvement, protection or management of Napier Harbour or the Coastal Marine area.

Council allows freeholding of leasehold endowment property and will also consider requests from groups of lessees to freehold their leasehold property. Council has established specific terms and conditions under which lessees can freehold their properties.

Subject to any contrary decisions made under 6. above Council will use any sale proceeds from its leasehold endowment property for reinvestment in appropriate investments which will provide an ongoing source of income to Council.

Furthermore (in accordance with the Endowment Act) Council has decided that any income earned from the reinvestment of sale proceeds of leasehold endowment property will be used to meet a proportion of Council's net funding requirement of each group of activities.

This is determined as being the net funding requirement of each group of activities expressed as a percentage of the total net funding requirement for all groups of activities. This income is applied after the proportion of the general rate required to fund each group of activities but before the use of dividends, interest and reserve funds.

Management and Reporting

An Annual Report is provided to Council which specifies the movements in rental renewals, leasehold sales over the year, total transfers of leasehold properties between lessees in a year and any other matters of relevance relating to Council's leasehold endowment property portfolio. At the time Annual Plan progress reports are presented to Council throughout the year, accumulated sales are reported as is the leasehold rental income that has been paid to Council. Furthermore, any other matters of relevance relating to the portfolio, and frequently policies relating to the portfolio, are reported to Council as part of Council Agenda papers.

iii) Other property investments

Holding and Value

Council owns other leasehold property in the suburbs of Kelburn and Thorndon in Wellington, however, these are not subject to endowment restrictions. The portfolio consists of 13 leasehold land properties and the most recent independent valuation (30 June 2005) valued the lessors (i.e Council's) interest in the land at $8.6 million.

Purpose of the Investment

The investment in these properties was made from sale proceeds of leasehold endowment properties in Napier. This reflects Council's policy of reinvesting leasehold endowment property sale proceeds in other appropriate investments which will provide an ongoing source of income to Council.

Objectives

Council's objective is to have a low risk, income producing and long term appreciating investment. Ground rental is set at market value of the land value with the rent being reviewed every 14 years. Subject to any contrary decisions made under 6. above Council will use any sale proceeds from its leasehold endowment property for reinvestment in appropriate investments which will provide an ongoing source of income to Council. Leasehold revenue is used to meet a proportion of Council's net funding requirement.

Management and Reporting

An Annual Report is provided to Council which specifies the movements in rental renewals, leasehold sales over the year, total transfers of leasehold properties between lessees in a year and any other matters of relevance relating to Council's leasehold endowment property portfolio. At the time Annual Plan progress reports are presented to Council throughout the year, accumulated sales are reported as is the leasehold rental income that has been paid to Council. Furthermore, any other matters of relevance relating to the portfolio, and frequently policies relating to the portfolio, are reported to Council as part of Council Agenda papers.

iv) Bonds, Fixed interest and Short Term Deposits

Purpose of the Investment

Council had $40.2 million of these investments as at 30 June 2005. Investments are in New Zealand Government Stock, Local Authority Stock and deposits with registered banks.

Most of these investments relate to the proceeds from the freeholding of Council's leasehold property, Council's general activities, asset replacement and disaster damage purposes, as well as land drainage and flood control schemes. The investments are held primarily as reserve funds of one sort or another. This reflects various statutory requirements to prudently provide for disaster damage to Council assets as well as providing fully funded depreciation reserves. Furthermore, Council needs to maintain a working capital balance to ensure it can meet its obligations as and when they fall due and the funds from freeholding of leasehold property is invested until alternative long-term investments become available and are approved by Council. Consequently, the investments in these funds are for both short and longer terms as appropriate to meet their required need.

Objectives

The objectives for these investments is to have readily available sources of funds to meet the requirements that each reserve has been established for and in the meantime, to ensure there is a secure form of investment with an acceptable return. The return from each reserve goes back to the credit of the reserve to ensure the beneficiaries of each reserve receive all income earned.

Management and Reporting

Overall reserve funds are reported to Council throughout the year and the return on such funds is credited to the appropriate project accounts or scheme reserve balances which likewise are reported to Council on at least an annual basis. Investments made under this investment category are only made with:

a) Any bank licenced with the Reserve Bank of New Zealand which has a minimum credit rating as issued by Standard and Poors (or other credit agencies of similar reputation) of:
   - A for short term debt (i.e. up to 12 months);
   - A for long term debt (i.e. more than 12 months).

b) Any institution where debt is issued by or guaranteed by the New Zealand Government.

c) Local Authorities, but excluding Council controlled organisations and Council controlled trading organisations.

d) Any Corporation, State Owned Enterprise or other legal entities which have minimum credit ratings for short and long term debt as issued by Standard and Poors (or other credit agencies of similar reputation) of:
   - A for short term debt (i.e. up to 12 months)
   - A+ for long term debt (i.e. more than 12 months).

v) Forestry (Trees only)

Holding and Value

Council has management responsibility for the 550ha Tangoio Soil Conservation Reserve which incorporates 320ha of commercial forest plantings, which is valued at $3 million as at 30 June 2005. Council also owns 130ha of commercial forest plantings at Tutira Country Park which is valued at $0.3 million as at 30 June 2005. Council has also participated in a number of joint ventures (11) with landowners where Council has assisted with funding for tree plantings through the Regional Landcare Scheme.

Purpose of the Investment

Council is required to maintain and manage the Tangoio Soil Conservation Reserve and as part of this commercial forest plantings have been established on this land. Council acquired Tutira Country Park for soil conservation and water quality purposes in the late 1990s and already established within the park were commercial forest plantings being the most appropriate long term sustainable land use. Further plantings have been added by Council for the same reasons. The joint venture arrangements under the Regional Landcare Scheme are primarily made in order to facilitate sustainable land uses. However, Council has entered the joint ventures so that any profit that may be derived by landowners from plantings will be of partial benefit to Council.

Objectives

The objectives for the Tangoio Soil Conservation Reserve and Tutira Country Park commercial forestry plantings are primarily soil conservation but the commercial forestry plantings will be managed in such a way as to maximise any potential future returns from these plantings. Likewise, the joint venture forestry investments are made in order to improve soil conservation which is the primary objective regarding these investments but again, they are managed to maximise any potential future returns.

Management and Reporting

An Annual Report is prepared for Council on the Tangoio Soil Conservation Reserve which covers all matters related to the commercial forestry plantings. Likewise, a separate project under the group activity land management in the environmental management area specifically concentrates on Tutira Country Park and covers ongoing management of the commercial forestry plantings. The joint venture initiatives under the Regional Landcare Scheme are overseen by staff but are not reported to Council on a regular basis due to the size of these plantings and the young age class of the trees.

vi) Equities (Excluding Port of Napier Limited)

Holding and Value

Council, as a prudent investor, has decided to hold equities as part of the Disaster Damage Reserve. The market value of equities as at 30 June 2005 was $1.065 million.

Purpose of the Investment

Equities are held as part of the Disaster Damage Reserve and the ownership of equities is part of a balanced portfolio investment strategy.

Objectives

Returns vary but in accordance with most equity investment capital appreciation is viewed as more important than dividend yield. The primary objective is to see a long term appreciating investment category with relatively modest yields from these investments. The investments must be relatively liquid in order to meet any call upon the Disaster Damage Reserve funds.

Management and Reporting

The parameters for the disaster reserve fund relating to equities are as follows:

- **New Zealand Shares - Up to 10% of the Fund***
  N.Z. Shares are to include: any equities or quasi equity instruments (e.g. convertible notes) listed on the New Zealand Stock Exchange; or portfolio of New Zealand Shares held via investment trusts, investment companies or unitised funds.
- **International Shares - Up to 22.5% of the Fund***
  International shares are to be held via diversified global funds which may be either investment trusts, investment companies or unitised funds.
  **(However, only up to 30% of the value of the fund is to be invested in New Zealand and International Shares at any time).*

To be classified as a New Zealand Share the registered office of the Company or at least 65% (in value) of the investments held in various entities within specific legal trusts, investment companies or unitised funds are to have their registered office in New Zealand. Investments in both New Zealand and international shares will be made by staff after seeking professional advice, which will include consideration of Council's tax paying status.

The results of the equity investments are reported to Council throughout the year as part of the Annual Plan progress report. Furthermore, Council's investment adviser regularly advises Council of issues related to these investments as it is on his advice that Council makes the investments.

8. Review of Policy

In accordance with the Local Government Act 2002, this policy will be reviewed and open for public comment via a special consultative procedure, on no less than a 3 yearly basis. It will also be reviewed and consulted on at any other time within the 3 year period when an amendment to the policy may be required.

Liability Management Policy

Introduction and Scope

The following Liability Management Policy has been prepared in accordance with the requirements of sections 102(4)(b) and (104) of the Local Government Act 2002 (the Act). The policy covers Council management of all borrowing, as defined in section 112 of the Act, as well as management of other liabilities. Section 113 of the Act prohibits Council from borrowing or entering into incidental arrangements denominated in other than New Zealand currency.

General Policy

In accordance with the Act, and by resolution, Council may borrow on such terms and conditions that it considers appropriate.

Council may borrow for any of the following primary purposes:

- Funds for the acquisition of any assets expected to have a useful economic life in excess of 2 years;
- Funds for specific one-off projects;
- The acquisition of low risk investments;
- Short term debt to manage timing differences between cash inflows and outflows and to maintain Council's liquidity.

In approving new borrowing, Council will apply the following principles:

- Borrowings will be repaid over the economic life of the assets being funded, or such shorter period as determined, at the discretion of Council;
- Interest costs and principal repayments will be funded by the beneficiaries of the borrowings;
- The extent of borrowings will be determined by the beneficiaries' ability and willingness to pay, as determined by consultation.

Commentary

Council has large infrastructure assets with long economic lives yielding long term benefits for the community. The use of debt as a funding option is seen as an appropriate and efficient mechanism for promoting inter-generational equity between current and future community members in relation to such assets. In addition, debt may allow scheme or other projects to progress at an earlier stage than might otherwise be possible as it reduces the cash flow burden on beneficiaries and therefore increases affordability.

Interest Rate Exposure

Interest rate risk refers to the impact that adverse movements in interest rates may have on Council's cash flows and interest expense.

To avoid this risk, and given the low level of current and forecast future borrowings, Council's preference is to borrow long-term on fixed interest rates.

From time to time it may be appropriate (depending on Council's outlook on interest rates at the time of borrowing and the term of a loan), to choose borrowing mechanisms that have a floating interest rate. In this case, the level of such borrowings must not exceed the maximum floating rate exposure allowed as set out below:

- Up to 50% of total external borrowings outstanding at any time may have a floating interest rate.

Where floating interest rates are used, interest rate hedging mechanisms may only be used as directed by Council.

Liquidity

Liquidity refers to the availability of funds to settle Council's financial obligations when they fall due for payment.

Council will maintain liquidity by:

- Matching average expenditure closely to revenue streams and managing cash flow timing differences to its favour;
- Avoiding concentrations of debt maturity dates;
- Maintaining operating cash balances (being less than 1 year investment timeframes) of not less than $3,000,000.

Credit Exposure

Council will only borrow from reputable financial institutions so there are no minimum credit rating requirements imposed by Council on its lenders. Furthermore, there is no limit on the level of borrowing to which Council may commit from any one lender.

Debt Repayment

Council will repay borrowings from rates, surplus funds, proceeds from the sale of assets or investments or from specific sinking funds.

Specific Borrowing Limits

In managing its borrowings, Council will adhere to the following limits:

- The annual interest expense on external borrowings will not exceed 20% of total general funding and targeted rates.

Security

Council will offer security for its borrowings by way of a charge over its rates. However, in special circumstances and if considered more appropriate, Council may offer security over specific assets.

Internal Debt Management

When considered appropriate, Council uses cash operating balances as internal borrowing sources, thereby reducing the level of external borrowings. The following guidelines apply to the use of internal borrowings:

- Interest will normally be charged on the average of opening and closing loan balances in each financial year;
- The interest rate charged is the average rate of return achieved from short term investments during the financial year.

Currently, internal debt is only used where scheme rating balances are in deficit.

Review of Policy

In accordance with the Local Government Act 2002, this policy will be reviewed and open for public comment via a special consultative procedure, on no less than a 3 yearly basis. It will also be reviewed and consulted on at any other time within the 3 year period when an amendment to the policy may be required.

Policy on Partnerships with the Private Sector

Introduction

Under Section 107(2) of the Local Government Act 2002 ‘partnership with the private sector' means any arrangement or agreement that is entered into between one or more local authorities and one or more persons engaged in business, which is interpreted to mean engaged in activity for profit, but does not include:

(a) any such arrangement or agreement to which the only parties:

(i) local authorities; or

(ii) one or more local authorities and one or more council organisations; or

(b) a contract for the supply of any goods or services to, or on behalf of, a local authority.

Whether intended or not this has created a very wide definition of the word 'partnership' and will encompass a wide range of arrangements between Council and the private sector. Consequently, the specific policy stated below has been prepared in reflection of this.

1. Circumstances in which Council will enter into partnerships with the private sector

Council will enter into partnership arrangements with the private sector in circumstances where these arrangements will best help achieve Council's objectives as contained in its current 10 Year Plan.

2. Consultation on any planned partnerships

Council will consult on any planned partnerships with the private sector where there is a significant change in proposed service levels or where ownership or control of a significant asset owned by Council is to be transferred to or from Council. Council will consult with its community if the proposed partnership involving a proposal to provide funding or other resources is deemed to be significant in accordance with Council's policy on significance.

3. Conditions to be satisfied

Council will consider on a case by case basis the appropriate conditions to be imposed before providing funding or other resources to any form of partnership with the private sector. Any such conditions will include acceptable accountability mechanisms for the resources provided.

4. Assessment and management of risks associated with any partnerships

Risks will be assessed and managed on a case by case basis depending upon the nature of the partnership arrangements entered into and the degree of risk exposure faced by Council. Risks will be principally assessed on the basis of the exposure of Council, above and beyond the known funding or other resources that it may commit to any such partnership arrangements.

5. Monitoring and reporting of partnership arrangements

The necessity for monitoring and reporting on partnerships will be determined at the time the authority for the partnerships to be entered into is granted by Council. In those circumstances where there is a required output as part of the arrangements entered into, then reporting against this will be undertaken at least once annually and, in critical circumstances, more frequently.

6. Assessment monitoring and reporting on effectiveness of partnerships

This will be completed at least once every three years and will be undertaken on the basis of determining the effectiveness of these arrangements in helping meet the objectives of Council, as contained in its current 10 Year Plan.

7. Review of policy

In accordance with the Local Government Act 2002, this policy will be reviewed and open for public comment via the special consultative procedure, on no less than a three yearly basis. It will also be reviewed and consulted on at any other time within a three year period when amendment to the policy may be required.

Policy on Rates Remission and Postponement

On Maori Freehold Land

Introduction

Maori freehold land is defined in the Local Government (Rating) Act 2002 as land whose beneficial ownership has been determined by a freehold order issued by the Maori Land Court. Only land that is the subject of such an order may qualify for remission or postponement under this policy. Whether rates are remitted or postponed in any individual case will depend on the individual circumstances of each application.

This policy has been formulated for the purpose of:

- Ensuring the fair and equitable collection of rates from all sectors of the community by recognising that certain Maori owned lands have particular conditions, features, ownership structures or other circumstances that make it appropriate to provide relief from rates;
- Meeting the requirements of Sections 102 (4) (f) and 108 and the matters in Schedule 11 of the Local Government Act 2002 to have a policy on the remission and postponement of rates on Maori freehold land.

Objectives

The objectives of this policy are:

- To recognise situations where there is no occupier or person gaining an economic or financial benefit from the land;
- To set aside land for conservation purposes because of its natural features;
- To recognise and take account of the presence of waahi tapu (sacred areas) that may affect the use of the land for other purposes;
- Where part only of a block is occupied, to grant remission for the portion of land not occupied.

Conditions and criteria

1. Application for a remission or postponement under this policy must be made by the person(s) liable for rates for the land (e.g. owners or trustees), or a person appointed by the Maori Land Court, or other authorised agent of the owners of the land.
2. The application is to be made in writing prior to thirty days of the due date of payment. Applications made after this cut-off date will apply from the beginning of the following rating year. From time-to-time Council will review the appropriateness of remissions.
3. The applicant must include the following information in their applications:
   - Details of the rating unit or units involved;
   - Documentation that shows that the land qualifies as land whose beneficial ownership has been determined by a freehold order issued by the Maori Land Court;
   - Details supporting the applicants eligibility under clause 5 below.
4. Relief and the extent thereof, is at the sole discretion of Council and may be cancelled or reduced at any time.
5. Council may grant a remission on Maori freehold land of up to 100% of all rates for the year to which the application applies, based on the following criteria:
   i) The land is in multiple ownership;
   ii) Where the level of gross income derived from the land is not sufficient to cover the cost of rates levied on that land;
   iii) Where it is not possible to identify or locate the owners, or those liable to pay rates on the land;
   iv) The support for the use of the land by the owners for traditional purposes;
   v) The support for the relationship of Maori and their culture and traditions with their ancestral lands;
   vi) Recognition of the presence of sacred areas (waahi tapu) that may affect the use of the land for other purposes;
   vii) Recognition of the importance of the land for community goals relating to:
      - the preservation of the natural character of the coastal environment;
      - the protection of outstanding natural features;
      - the protection of significant indigenous vegetation and significant habitats of indigenous fauna.
6. No application under this policy will be automatically backdated; however, having granted a remission on a property under the criteria laid down in clause 5 (above), Council may remit (write-off) outstanding arrears owing on that same property.

Delegated Authority

Decisions on the remission and postponement of rates on Maori freehold land are delegated to the Group Manager Corporate Services or the Chief Executive.

Review of Policy

This policy will be reviewed on at least a three yearly basis, to ensure that the conditions and criteria on which the policy is based, continue to be relevant and appropriate.

Remission in Special Circumstances

Introduction

In order to allow rate relief where it is considered fair and reasonable to do so, Council has resolved to adopt policies under Sections 102 (5) (a) and 109 of the Local Government Act 2002 specifying the circumstances under which rates will be considered for remission. There are various types of remission, and circumstances under which a remission will be considered. A remission will not be granted where an entity has qualified under the Local Government (Rating) Act 2002 (LGRA) for partial non rating under Part 2 of Schedule 1.

The conditions and criteria relating to remission in special circumstances are set out below.

Part 1 – Remission of Rates in Special Circumstances

Policy objective

To provide for the possibility of a rates remission in circumstances that have not been specifically addressed in other parts of Council's rating policy.

Conditions and criteria

1. Council may remit all or part of the rates assessed in relation to a particular rating unit in special or unforeseen circumstances where it considers it just and equitable to do so.
2. The approval of the remission must not set a precedent that unfairly disadvantages other ratepayers.
3. A remission under this policy will apply for one year only. Applicants must reapply annually.
4. No application under this policy will be backdated. Rates arrears on the land as at 1 July 2004 will remain outstanding until such time as Council is no longer legally able to pursue the collection of the rates.
5. All applications must be received in writing detailing the rating unit(s) involved and any other relevant information supporting the applicants eligibility for the remission.
6. The application for a rates remission must be made prior to 7 days of the due date of payment.

Delegation

Decisions relating to the remission of rates special circumstances are retained by Council.

Review of Policy

This policy will be reviewed on at least a 3 yearly basis, to ensure that the conditions and criteria on which the policy is based, continue to be relevant and appropriate.

Part 2 – Remission of Penalties on Rates

Objective

To enable Council to act fairly and reasonably when rates have not been received by the due date.

Conditions and criteria

Upon receipt of an application from the ratepayer, or if identified by Council, Council may remit a penalty where:

a) It is demonstrated that the penalty has been levied because of an error by Council; or
b) It considers that it is fair and equitable to do so.

Matters that will be taken into consideration by Council under (B) above include the following:

a) The ratepayer's payment history;
b) The ratepayer entering into an agreement with Council for the payment of rates.

Council reserves the right to impose conditions on the remission of penalties.

Delegation

Decisions relating to the remission of penalties on rates are delegated to the Group Manager Corporate Services or Chief Executive.

Review of Policy

This policy will be reviewed on at least a 3 yearly basis, to ensure that the conditions and criteria on which the policy is based, continue to be relevant and appropriate.

Part 3 – Remission of Rates on Properties Affected by Natural Calamity

Objective

To assist ratepayers experiencing extreme financial hardship due to natural calamity which affects their ability to pay rates.

Conditions and Criteria

1. Applicable where erosion, subsidence, submersion, or other natural calamity has affected the use or occupation of any rating unit. Does not apply to erosion, subsidence, submersion, etc that may have occurred without a recognised major event.
2. Council may, at its discretion, remit all or part of any rate assessed on any rating unit so affected by natural calamity.
3. Council will set the criteria for remission with each event. Criteria may change depending on the severity of the event and available funding at the time.
4. Council may require financial or other records to be provided as part of the remission approval process.
5. Remissions approved under this policy do not set a precedent and will be applied only for each specific event and only to properties affected by the event.

Delegation

Decisions relating to the remission of rates on property affected by natural calamity are delegated to the Group Manager Corporate Services or the Chief Executive.

Review of Policy

This policy will be reviewed on at the least a three yearly basis, to ensure that the conditions and criteria under which the policy is based, continue to be relevant and appropriate.

Remission for Uniform Annual General Charges (UAGC)

Introduction

In order to allow rate relief where it is considered fair and reasonable to do so, Council is required to adopt policies to specify the circumstances under which rates will be considered for remission. This policy is prepared under Sections 102 (5) (a) and 109 of the Local Government Act 2002.

Policy Objectives

- To provide relief to ratepayers who occupy several near adjacent rating units, but which do not meet the criteria for continuancy under section 20 of the Local Government Act (Rating) 2002.
- To provide relief for developers in the instances of sub-division development in urban areas.

Remissions under the Local Government (Rating) Act 2002

Section 20 of the Local Government (Rating) Act 2002, stipulates that there shall be one property for the purposes of levying the UAGC, where two or more separately rateable properties are:

a. Occupied by the same ratepayer (owner or person with right to occupy by virtue of lease for more than 12 months); and
b. Used jointly as a single property (for the same purpose); and
c. Contiguous but separated only by a road, railway-line, drain, water race, river or stream, they shall be deemed to be one property for the purposes of any Uniform Annual General Charges.

Where not already reflected on Council's rating information database, Council will allow, without any further enquiry, (except for clarification), applications made by ratepayers in the form of a statutory declaration to the effect that two or more separately rated properties are occupied by the same ratepayer and used jointly for the same purpose, the Uniform Annual General Charge levied on the second and subsequent assessments will be cancelled.

Conditions and Criteria to achieve Policy Objectives

1. Where farming or horticultural operations conducted on separate blocks of land are so far apart so as to indicate that there is no possible continuancy between them, all charges may be levied on each; however, factors such as distance, stock rotation, stock driving, etc., property size and the number of properties effected, will be taken into account in determining whether remission should apply:
   a. Without dwellings:
      Where a single operation is operated over a number of separate rating units, or blocks of separate rating units within close proximity the 'flagship' (major rating) may be levied a full charge and the associated rating units may receive a 100% reduction;

b. With dwellings:
Where a single operation is operated over a number of separate rating units, or blocks of separate rating units within close proximity a charge may be levied against each rating unit with a habitable dwelling and the associated units may receive a 100% reduction.

Where a single operation is operated over a number of separate blocks of contiguous rating units that contain dwellings, one full charge may apply to each block of such rating units.

2. Miscellaneous
If a rating unit is of a size which would not enable a dwelling to be erected and where no dwelling exists, a 100% reduction in charge may apply.

Remission of the charge may apply to a subdivision for the period if the individual lots continue to be in the ownership of the developer.

3. The application is to be made in writing 30 days prior to the due date of payment.
4. All applications must be received in writing, detailing the rating unit/units involved and any other relevant information supporting the applicant's eligibility for the remission.

Delegation

Decisions relating to the remission of Uniform Annual General Charges are delegated to the Group Manager Corporate Services and Financial Accountant.

Review of Policy

This policy will be reviewed on at least a three yearly basis to ensure the conditions and criteria on which the policy is based, continue to be relevant and appropriate.

Postponement in Cases of Financial Hardship or Natural Disaster

Introduction

This policy is prepared under Sections 102 (5) (b) and 110 of the Local Government Act 2002.

Objective

1. To assist ratepayers experiencing short term extreme financial hardship that affects their ability to pay rates.
2. To assist ratepayers whose property has been subject to a natural disaster to the extent that ratepayer is unable to pay rates.

Conditions and Criteria

The financial hardship must be caused by circumstances beyond the ratepayer's control.

The postponement of rates in cases of financial hardship is a last resort to assist residents who own the property to which the postponement application applies.

Criteria for the postponement of rates for ratepayers in cases of hardship are as follows.

i) The applicant can illustrate a postponement of rates will help them overcome their short term extreme financial hardship;
ii) The applicant has no access to other funds to pay the rates due.

Criteria for the postponement of rates for ratepayers in cases of natural disaster are as follows:
The applicant is unable to pay their rates bill because of a natural disaster or severe weather event that has severely impacted on their ability to pay rates but a postponement will help enable them to pay in the future.

Other Conditions

Approval of rates postponement is for one year only. The applicant must reapply annually for the continuation of a rates postponement.

Delegation

Decisions relating to the postponement of rates in cases of financial hardship are delegated to the Chief Executive.

Decisions related to the postponement of rates in cases of natural disaster are retained by Council.

Review of Policy

This policy will be reviewed on at least a 3 yearly basis, to ensure that the conditions and criteria on which the policy is based, continue to be relevant and appropriate.

Revenue and Financing Policy

The only amendment made to this policy is to include the new activity "building implementation" under the environmental management group of activity. The reason for including this new activity is a requirement under the Building Act 2004 for Council to undertake the responsibility to process building consents and administer the dam classification process in accordance with that Act.

Introduction

This policy has been prepared in accordance with Sections 102 (4) (a) and 103 of the Local Government Act 2002. It identifies the funding sources and mechanisms that will be used to finance Council's operating expenses and capital expenditure for the 10 years commencing 1 July 2006.

Local Government is required by statute to identify the costs of its functions and fund them appropriately. This involves the allocation of costs to the functions followed by a determination of the most appropriate form of funding.

Purpose of the Policy

The purpose of the revenue and financing policy is to provide and explain the policy of Council for the funding of operating and capital expenditure from the following sources:

a) fees and charges
b) general rates, including
  - choice of valuation system
  - differential rating
  - uniform annual general charges
c) targeted rates
d) interest and dividends from investments
e) borrowing
f) proceeds from asset sales
g) development contributions
h) financial contributions under the Resource Management Act 1991
i) grants and subsidies
j) any other source

In determining the sources to fund operating and capital expenditure Council must consider:

a) In relation to each activity to be funded:
  i. the community outcomes to which the activity primarily contributes; and
  ii. the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and
  iii. the period in or over which those benefits are expected to occur; and
  iv. the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and
  v. the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities; and
b) The overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.

Grouping of Activities

In fulfillment of its statutory responsibilities and for operational management purposes, Council groups its functions in the Long Term Council Community Plan into separate groups of activities. Council has seven 'groups of activities' which form the Long Term Council Community Plan and Annual Report processes.

Groups of Activities are further analysed by individual activities within each group. This framework enables Council to co-ordinate its various planning and reporting responsibilities and provides an appropriate base for determining Council's revenue and financing policy.

Available Funding Sources

Council may lawfully fund its expenditure needs from the sources listed above. Set out below is discussion on the most significant of these to Council.

Fees and Charges

Subject to the provisions of a number of statutes, Council may directly charge beneficiaries for services.

These user pays charges may be made using a variety of methods from setting fees for certain activities to charges for actual time and materials based on pre-determined hourly charge out rates.

Of relevance also is Section 36 of the Resource Management Act 1991 which enables local authorities to establish charges for various administrative and monitoring activities:

- receiving, processing and granting resource consents;
- implementing requests to prepare or change plans or policy statements;
- monitoring compliance with conditions on resource consents;
- providing information in respect of consents or plans;
- gathering information or research;
- monitoring the state of the environment.

Administrative charges made under Section 36 of the Resource Management Act 1991 are required to be fair and reasonable. Before making charges, Council is required to have regard to the following:

- The sole purpose of any charge is to recover the reasonable costs incurred by Council in respect of the activity to which the charge relates.

- A particular person or persons should be required to pay a charge only to the extent that either the benefit of Council's actions to which the charge relates is obtained by those persons as distinct from the community of Hawke's Bay as a whole, or the need for Council's actions to which the charge relates is occasioned by the actions of those persons.
- When the charge relates to monitoring the state of the environment, a particular person or persons should only be required to pay a charge, either to the extent that the charge relates to the likely effects on the environment of those persons' activities, or to the extent that the likely benefits of the monitoring to those persons exceeds the likely benefit of the monitoring to the community of the Hawke's Bay region as a whole.

Other direct charges include fees, and sundry charges.

The contract arrangements with the Animal Health Board for recovery of the majority of costs for Tb vector control constitute the majority of Council income under the 'fees and charges' category.

Rates

Rates are a substantial and traditional source of revenue for local government. Rates are a form of taxation based on the ownership or occupation of property.

Rating Bases - Under the provisions of the Local Government (Rating) Act 2002, there are four bases upon which rates can be made and levied. In brief, these are:

- *Land value* – The market value of the land;
- *Capital value* – The market value of the land and improvements;
- *Annual value* – The rent for which a particular property could be let from year to year, less 20% in the case of buildings and 10% in the case of land, but it shall not be less than 5% of the market value;
- *Area system* – Where rates are made and levied on the basis of an amount based on the area of each rateable property.

Capital and land values are determined independently of local authorities by valuation service providers.

The properties for each city and district are normally revalued every three years. For the Hawke's Bay region, a certificate is obtained which equalises the values of each city and district annually to compensate for timing differences in the valuations between districts.

- *General Rates* - Council may make and levy a regional general rate, either:
  - across the region; or
  - within each constituent city or district, so that the rate made or levied may vary from district to district.

A system of differential rating for the general rate whereby rating levels may be varied for different categories of property, for example, rural versus commercial, can also be used.

A General Rate can be set on either the basis of land value, capital value or annual value. Hawke's Bay Regional Council has always used land value (equalised) as its base for general rates.

- *Uniform Annual General Charge (UAGC)* - From 1 July 2004 Council introduced a uniform annual general charge (UAGC) to ensure that each rating unit in the region contributes a minimum amount of the general rate to represent the services that each ratepayer benefits from equally.

  From 1 July 2004 Council will make use of a Uniform Annual General Charge to ensure each rating unit in the region contributes a minimum amount of the general funding rates to represent the services that each ratepayer benefits equally.
- *Targeted Rates* - In addition to the general rate, Council is authorised to make targeted rates for the purpose of undertaking any specific service or work for the benefit of all or part of the region. These rates are normally applied to properties that have a direct beneficiary or cause/effect relationship with the function or service being provided (thus reflecting the locality concept).

Council has used targeted rates to fund flood protection and drainage schemes, public transport, and animal and plant pest control. A combination of capital value, land value and area basis have been used for these targeted rates. Detailed information of the rating for each scheme and the basis for this rating is set out in the funding impact statement included in this plan.

Interest and Dividends from Investments

Council has a range of property, equity, and cash investments that provide a source of income not related to any specific function or activity. Council's investment assets are its 91.7% shareholding in the Port of Napier Limited, leasehold property investments in both Napier and Wellington, and reserve funds.

Investment revenue is principally applied to offset general rate requirements, specifically Council has decided (in accordance with the Hawke's Bay Endowment Land Empowering Act) that any income earned from the reinvestment of sale proceeds of leasehold endowment property will be used to meet a proportion of the net funding requirement of each Group of Activities. This proportion will be the same as the net funding requirement of each Group of Activity expressed as a percentage of the total net funding requirement for all Groups of Activities. This income will be used after that proportion of the general rate used to fund each Group of Activity but before the use of dividends, interest and reserve funds.

Proceeds from Asset Sales

The proceeds from any property asset sales, including Napier leasehold properties, are credited to the Sale of Land Account. All the funds in this account, apart from $500,000 per year which, under Council's investment policy is available for use to fund capital projects within Hawke's Bay that have social, cultural or economic significance, are initially invested in fixed deposits, until suitable projects which comply with Council's general investment policies as shown in Council's adopted investment policy, are identified.

The proceeds from the sale of all other operating assets are used to fund the replacement operating asset needs of Council.

Development Contributions

The Local Government Act 2002 precludes Regional Councils from charging development contributions.

Financial Contributions under the Resource Management Act 1991

Council has determined that it will impose financial contributions only in relation to resource consents granted for river bed gravel extraction. These financial contributions are used to avoid, remedy or mitigate the adverse effects on the environment of this activity.

Borrowing

Local authorities may borrow New Zealand currency to finance their lawful functions. Borrowing is a useful method of funding the costs of a project where the benefits will accrue into the future, for example, funding the capital costs of a flood control scheme, or major building project. Council will periodically borrow for such purposes.

Reserves

Local authorities have traditionally, and to varying degrees, developed reserve funds. Reserve funds have been used to allocate funds for special purposes such as asset replacement, future capital works, and for emergencies and contingencies. Council has a reasonable level of reserves which assist in the financial management of Council’s activities. Consideration of the appropriate reserves and reserve levels is addressed as part of the Long Term Council Community Plan and Investment Policy.

Government Grants

The Government may provide funds to Council for specific purposes and projects across a range of Council functions. Land Transport (NZ) provide funding for subsidised passenger transport activities.

Capital Expenditure

The funding of capital expenditure is addressed in two distinct ways depending upon the nature of the expenditure.

i) Financing the purchase of fixed assets

For fixed assets including buildings, furniture and fittings, plant, equipment etc., it is Council's policy to fully fund depreciation from operating revenue for these assets. This depreciation is placed in an asset replacement reserve which is used to fund replacement assets. If there is any shortfall Council will either borrow, use other Council reserves or other general funding revenue sources.

ii) Financing of infrastructure assets

a) Assets with an infinite life

These assets include stopbanks, berm edge protection, sea or river groynes, drainage works etc. and are considered not to deteriorate over time and are maintained in accordance with Council's asset management plans. No depreciation is provided on these assets.

For significant new asset purchases under this category, borrowed funds are used as Council's preferred method of financing.

b) Assets with a finite life

These assets include culverts, detention dams, pump stations, etc and are depreciated over their useful life. This depreciation is fully funded from operating revenue and is placed in infrastructure depreciation reserves for each flood and drainage scheme. Renewal of these assets will be funded from this depreciation reserve and loan funding as necessary.

Where 'new' assets that will result in improved levels of services or additional capacity, are to be purchased or constructed then it is Council's preference to fund this through external loan funding other than where existing income sources allow the assets to be paid at the time of acquisition / construction.

Revenue and Financing Policy by 'Group of Activity'

The following pages outline funding considerations for each activity within the seven 'Group of Activities' of Council.

A three step process is used by Council to ensure that the funding principles as required by the Local Government Act 2002 are adequately covered:

Step 1: Establish how Council's work could be funded by using economic theory and principles. Identify who benefits from the work, e.g. direct beneficiaries, exacerbators or every member of the community.

Step 2: Amend the funding splits resulting from step one if Council considers changes are necessary to reflect more appropriately the impact of any allocation of liability for revenue needs on the current and future social, economic, environmental and cultural wellbeing of the community.

Step 3: Choose the funding sources that are the most appropriate and fair to recover the costs (this may result in changes to the funding splits derived from step two).

This three step process results in Council's work being split between public and private benefits.

Details of funding by each activity are provided in the tables that follow. It is important that the notes to these tables are read along with the figures in the tables as the notes provide the logic supporting each funding split between public and private.

Environmental Management

Activity	*Further Analysis*	*Previous Policy*		*Proposed Policy*		*Funding Tools*		
		Public	*Private*	*Public*	*Private*	*Public*	*Private*	*Note*
Policy Development		100%	Nil	100%	Nil	80% UAGC[a] 20% G/R[b]	N/A	1
Policy Implementation		100%	Nil	100%	Nil	80% UAGC 20% G/R	N/A	1
Resource Consents Processing		40%	60%	40%	60%	UAGC	Fees/Charges	2
Environmental Research		100%	Nil	100%	Nil	90% UAGC 10% G/R	N/A	
State of the Environment (SOE) Monitoring		100%	Nil	100%	Nil	80% UAGC 20% G/R	N/A	3
Compliance Monitoring	Compliance	30%	70%	30%	70%	G/R	Fees/Charges	4
	Environmental Incident Response	100%	Nil	100%	Nil	30% UAGC 70% G/R	N/A	5
Building Act Implementation		–	–	80%	20%	60% UAGC 20% G/R	Fees/Charges	7
Land Management	Regional Landcare Scheme	99%	1%	99%	1%	UAGC	Fees/Charges	6
	Education and Advocacy			99%	1%	20% UAGC 79% G/R		
	Nursery	Nil	100%	Nil	100%	N/A	Fees/Charges	6
	Tutira	87%	13%	87%	13%	UAGC	Fees/Charges	
Maritime Safety & Navigation	Navigation Aids & Regulation	100%	Nil	100%	Nil	20% UAGC 80% G/R	N/A	1
	Oil Spill	Nil	100%	Nil	100%	N/A	Govt. Grants	

(a) UAGCs denotes Uniform Annual General Charges which will meet the public good funding needed in the proportions stated after deducting contributions from regional income and any use of accumulated operating reserves.

(b) G/R denotes General Rate which will meet the public good funding needed in the proportions stated after deducting contributions from regional income and any use of accumulated operating reserves.

(c) The Notes to these tables provide the logic to support the funding splits between Public and Private.

Land Drainage & River Control

Activity	*Further Analysis*	*Previous Policy*		*Proposed Policy*		*Funding Tools*		
		Public	*Private*	*Public*	*Private*	*Public*	*Private*	*Note*
Heretaunga Plains Scheme	Drainage	10%	90%	10%	90%	G/R[a]	Differential Rate	9
	River Control	30%	70%	30%	70%	G/R[b]	Differential Rate	9
	Catchment Reviews	30%	70%	30%	70%	G/R	Differential Rate	8
Upper Tukituki Scheme		17.5%	82.5%	17.5%	82.5%	G/R	Differential Rate	
Other Schemes	Paeroa	12.5%	87.5%	12.5%	87.5%	G/R	Differential Rate	9
	Makara	10%	90%	10%	90%	G/R	Differential Rate	9
	Porangahau	10%	90%	10%	90%	G/R	Differential Rate	9
	Poukawa	5%	95%	5%	95%	G/R	Differential Rate	9
	Ohuia-Whakaki	5%	95%	5%	95%	G/R	Differential Rate	9
	Esk	12.5%	87.5%	12.5%	87.5%	G/R	Differential Rate	9
	Whirinaki	12.5%	87.5%	12.5%	87.5%	G/R	Differential Rate	9
	Wairoa	12.5%	87.5%	12.5%	87.5%	G/R	Differential Rate	9
	Maraetotara	10%	90%	10%	90%	G/R	Differential Rate	9
	Kopuawhara	10%	90%	10%	90%	G/R	Differential Rate	9
	Te Ngarue	10%	90%	10%	90%	G/R	Differential Rate	9
	Central & Southern	12.5%	87.5%	12.5%	87.5%	G/R	Differential Rate	9
Gravel Management	Gravel Extraction	Nil	100%	Nil	100%	N/A	Fees/Charges	
	Cross Sections	44%	56%	44%	56%	UAGC	Fees/Charges (39%); Differential Rate (17%)	
Investigations & Enquiries	Enquiries	100%	Nil	100%	Nil	UAGC	N/A	
	Subsidised Work	0-30%	70-100%	0-30%	70-100%	General Rate	Fees/Charges	10
	Consultancy Services	Nil	100%	Nil	100%	N/A	Fees/Charges	
Sundry Works	River Openings	100%	Nil	100%	Nil	70% UAGC 30% G/R	N/A	11
	Public Access to Rivers	100%	Nil	100%	Nil	UAGC	N/A	12
	Westshore	50%	50%	50%	50%	30%UAGC 20%G/R	Contribution from Napier City Council	13

(a) UAGCs denotes Uniform Annual General Charges which will meet the public good funding needed in the proportions stated after deducting contributions from regional income and any use of accumulated operating reserves.

(b) G/R denotes General Rate which will meet the public good funding needed in the proportions stated after deducting contributions from regional income and any use of accumulated operating reserves.

(c) The Notes to these tables provide the logic to support the funding splits between Public and Private.

Biosecurity

Activity	*Further Analysis*	*Previous Policy* Public	*Previous Policy* Private	*Proposed Policy* Public	*Proposed Policy* Private	*Funding Tools* Public	*Funding Tools* Private	*Note*
Animal Pests								
	Regional Strategy							
	• Rabbit Advice and Monitoring	30%	70%	30%	70%	G/R[a]	Differential Rate	14
	• Rabbit and Possum bait subsidy	100%	Nil	100%	Nil	G/R[b]	N/A	15
	• Initial Possum Control and Establishment of Maintenance Infrastructure	30%	70%	30%	70%	G/R	Differential Rate	16
	• Possum Control Programme Administration and Compliance	30%	70%	30%	70%	G/R	Differential Rate	
	• Control of Covenanted Areas	100%	Nil	100%	Nil	UAGC	N/A	17
	• Possum Control on Boundaries	100%	Nil	100%	Nil	UAGC	N/A	
	• Rook Control	50%	50%	50%	50%	G/R	Differential Rate	18
	• Site Specific Incentive	100%	Nil	100%	Nil	UAGC	N/A	15
	• General Advice	100%	Nil	100%	Nil	UAGC	N/A	
	• Research	100%	Nil	100%	Nil	UAGC	N/A	
	• Bovine Tb Vector Control	3%	97%	3%	97%	G/R	Charges (90%) Differential Rate (7%)	20
Plant Pests	• Incentive Scheme	100%	Nil	100%	Nil	UAGC	N/A	19
	• Service Delivery and Monitoring	40%	60%	40%	60%	G/R	Differential Rate	21
	• Biological Control	30%	70%	30%	70%	G/R	Differential Rate	22
Pest Mgmt Strategies		100%	Nil	100%	Nil	UAGC	N/A	

(a) UAGCs denotes Uniform Annual General Charges which will meet the public good funding needed in the proportions stated after deducting contributions from regional income and any use of accumulated operating reserves.

(b) G/R denotes General Rate which will meet the public good funding needed in the proportions stated after deducting contributions from regional income and any use of accumulated operating reserves.

(c) The Notes to these tables provide the logic to support the funding splits between Public and Private.

Hazard Management

Activity	*Further Analysis*	*Previous Policy*		*Proposed Policy*		*Funding Tools*		
		Public	*Private*	*Public*	*Private*	*Public*	*Private*	*Note*
Hazard Identification		100%	Nil	100%	Nil	UAGC[a]	N/A	
Flood Warning		100%	Nil	100%	Nil	UAGC	N/A	
Emergency Response		100%	Nil	100%	Nil	UAGC	N/A	

Land Transport

Transport Planning		100%	Nil	100%	Nil	UAGC	N/A	
Subsidised Public Transport		Nil	100%	Nil	100%	N/A	Govt.Grants (45%) Differential Rate (55%)	23

Economic, Cultural & Social Wellbeing

Economic Development Support		100%	Nil	100%	Nil	50% UAGC 50% GR[b]	N/A	24
Grant Assistance		100%	Nil	100%	Nil	60% UAGC 40% GR	N/A	25
Specific Regional Projects		100%	Nil	100%	Nil	From Specific Regional Projects Reserve	N/A	26

Community Representation		100%	Nil	100%	Nil	UAGC	N/A	

(a) UAGCs denotes Uniform Annual General Charges which will meet the public good funding needed in the proportions stated after deducting contributions from regional income and any use of accumulated operating reserves.

(b) G/R denotes General Rate which will meet the public good funding needed in the proportions stated after deducting contributions from regional income and any use of accumulated operating reserves.

(c) The Notes to these tables provide the logic to support the funding splits between Public and Private.

Revenue and Financing Policy Notes

1. When allocating the benefits between public and private in Step 1, it was determined that part of the work required on this Activity was a result of the action of exacerbators, with this being classified as a private benefit. However, it is not practical or possible to charge these exacerbators, so consequently Council is to treat these costs as a public cost and meet them through the General Rate based on land value.
2. Council determined through Step 1 that most of the work relating to the processing and administering of resource consents conferred a private benefit. It is considered that charging for general advice would be contrary to Council's policy of encouraging the public to enquire as to what consents are required prior to resource use being initiated so the provision of general advice is treated as a public good and is funded through a Uniform Annual General Charge.
3. For State of the Environment (SoE) Monitoring, the Step 1 analysis indicated that the private good charge should be significantly higher than at present. This is because the information from the monitoring makes processing of resource consent applications easier, and some of the monitoring requirement results from the action of exacerbators. The proposal resulting from Step 3 however is considerably different from Step 1. It is not practical or legal to charge the exacerbators, and for some types of monitoring there are so few consent holders that it would be unfair to charge them when their actions have a minimal effect on the environment. All of the SoE Monitoring has therefore been treated as a public good.
4. For Compliance Monitoring the Step 1 analysis indicated that the private good charge should be significantly higher than at present. An analysis of staff time indicates that 70% of time is spent checking compliance with consent conditions and 30% spent on provisional information and advice, liasing with consent holders, external organisations and in-house deliberations over monitoring and enforcement strategies. The result from Step 2 reflects the decision to treat the 30% share as a public good, because charging for general enquiries and advice would discourage resource users from discussing environmental matters with staff.
5. For complaints the Step 1 analysis indicated that most of the work should be treated as a private good, as it was a consequence of the actions of individuals or organisations, but it is not possible, apart from prosecution, to recover these costs. Council will prosecute where it is appropriate, but as it is not considered a certain enough source of income to be used in the funding policy, all of the Activity is treated as a public good.
6. For Land Management the Step 1 analysis indicated that the private good charge for education and advocacy services should be significantly higher than at present. This reflects the benefit that is derived by landowners and the extra work that is required because of those who undertake unsustainable land use activities. To charge 80% of the costs to the direct beneficiaries and exacerbators would, however, lead to reduced use of the advice and financial assistance currently provided. Council considers that this would conflict with its objective of improving landuse practices and will treat 99% of this expenditure as a public good.

   For the Regional Landcare Scheme a private contribution by landowners of up to 50% of the scheme does not appear in Council's financial statements.
7. It is estimated that 80% of the costs arising from this activity cover the responsibilities to hold information and develop audit systems, these costs not being recoverable from consent applicants and holders. It is estimated that the remaining 20% of the project cost can be recovered from fees and charges for the actual processing of consents, with the level of charges being based on the actual and reasonable costs incurred.
8. The benefits of catchment reviews are strictly the same as for the ongoing drainage maintenance work in the individual catchment areas; however, Council believes that the initial reviews are necessary and will not be affordable to the individual catchment drainage schemes if the cost is distributed in accordance with strict economic principles. These reviews are therefore funded in accordance with the funding formula for Heretaunga Plains Flood Control Scheme rivers. However, once completed the cost to maintain them will be met by scheme beneficiaries.
9. A public contribution will be made to each of the schemes which Council administers according to the following principles:
   a. Heretaunga Plains River Control Scheme will receive a public contribution of 25%;
   b. A scheme which provides protection to a State Highway will receive a public contribution of 12.5%;
   c. A scheme which provides protection to a local roading network will receive a public contribution of 10%;
   d. A scheme which provides protection only to private land will receive a public contribution of 5%;
   e. However, the Heretaunga Plains River Control Scheme and Upper Tukituki Scheme will receive an additional 5% public contribution because of the additional costs that must be met by the scheme which arise from gravel flows from Crown Estate land.
10. Small flood control and stream improvement works undertaken on private land but which benefit the wider community receive a public contribution of up to 30%.
11. Council considers that if charges were to be made for the opening of river mouths it is probable that, in many cases, the openings would not take place and so this work is treated as a public good.

12. The Step 1 analysis indicates that public access to rivers has many characteristics of a private good. Council considers that it would be inappropriate to charge for access to the rivers and will therefore treat it as a public good.

13. Council has received a report in 2005 from Paul Komar, Consultant Oceanographer, which indicates that while the Port of Napier structures are likely to have a beneficial effect on Westshore, by reducing the wave energy on the beach, they do prevent a small quantity of beach sediment by passing the Port and finding its way to Westshore. The actual effect is difficult if not impossible to accurately quantify. The funding policy of 50% public / 50% private which is believed to be a pragmatic approach under the circumstances and reflects the fact that charges cannot legally be made to exacerbators. Consequently Council’s share of the costs are contributed through general funding rates. The remainder of the costs are met by Napier City Council.

14. Early identification and reduction of rabbit numbers has benefits to the whole region by reducing soil erosion and the prevention of the spread of rabbits. Many of the complaints and requests for advice arise from small rural properties and properties on the fringe of the urban area. Accordingly, 30% of the costs are funded from General Rates on land.

15. The rabbit control incentive scheme covers 50% of the cost of rabbit control on any property. Council has a philosophy of encouraging action by individuals to protect and enhance Hawke’s Bay’s environment through the provision of financial incentives. The incentive scheme falls into this category with the private contribution of 50% of the costs not appearing in Council’s costs. This is therefore funded through the UAGC.

16. Possum control under Council's Possum Control Area programme has spin off benefits for the environment, public health and the regional economy. This is assessed at 30% of the cost of the work and is funded from General Rates on land.

17. Possum control on QEII covenanted land and other land of high ecological value is considered to have benefits to the whole region as a result of the protection of New Zealand's native flora and fauna. The costs of this programme are therefore funded through the UAGC.

18. Rook control is strictly a private good; however, rooks cover a significant range and the exacerbator is unlikely to be the beneficiary of any control work undertaken.

19. The private contribution of 50% (up to a maximum of $3,000 per application) of the costs to encourage the control of Plant Pests specified in the Regional Pest Management Strategy does not appear in Council’s financial statements.

20. There is a complex funding formula included in the National Strategy for bovine Tb setting out funding source splits on the basis of benefit. Regional Councils jointly meet 10% of the cost of the national programme with HBRC's individual contribution based on the area of rateable and non-rateable land treated within our region. In the 2005/06 year HBRC met 8.31% of the cost (this percentage varies annually) of work undertaken in Hawke's Bay with 30% of this contribution met from General Rates on land and 70% from targeted rates. (Note that the figures shown in the funding policy work sheets show Council's contribution based on the average contribution of all Regional Councils).

21. The Regional Plant Pest and Animal Pest Management Strategy sets out the funding arrangements on the basis of benefit. The assessment of benefit is as follows:

Rural land occupiers	60%
Occupiers of properties <4ha	20%
Regional Community	20%

A General Rate based on land will meet the cost of the benefit received to properties less than 4ha and the regional community.

22. Plant pest biological control has benefits to the overall region through benefits to animal health, human health, the environment and the region's economy.

23. The 50% private contribution for the overall cost of subsidised public transport which is raised through user charges does not appear in Council’s financial statements. These charges relate to the amounts paid by individuals when they use the bus services.

24. It could be argued that promotion of the region as a visitor destination and for economic development generally will provide a greater and immediate benefit to those people who are involved in economic development activities. However, it is considered that there is an unjustifiable cost involved in identifying just who the private beneficiaries are and the extent of the benefit that they derive. This private benefit is estimated to be 50% of the total expenditure on this project, and the funding for this private benefit will be collected through general rates based on land value as economic activity has some correlation to land values as they are usually reflected in significant improvements to the land which result in higher land values, these values being the basis of Council's general rate.

25. It is considered that from a strict economic point of view set out in Step 1, that the private benefit of 40% reflects the fact that specific individuals will benefit by virtue of using the facilities or services provided through the grant funding. However, given the difficulty in establishing the value accruing to the individual private beneficiaries, particularly when the quantum of support is taken into account, it is not considered practical or worthwhile to charge them. Accordingly, the costs of covering the assessed private benefit will be collected through general rates based on land value.

26. The Hawke's Bay Endowment Land Empowering Act 2002 established funding for specific regional projects as covered in Council's Annual Plan or LTCCPs. The funding of this project will therefore come from reserve funds set aside for this purpose.

Policy on Significance

Introduction

This policy on significance outlines Council's general approach to determining the significance of proposals and decisions, and includes the criteria and procedures Council will use in assessing which issues, proposals, decisions and other matters are significant. It also lists assets Council considers to be strategic assets.

Statutory Requirements

This policy on significance is in accordance with Section 90 of the Local Government Act 2002 (the Act). The first policy on significance must be adopted before the close of 30 June 2003. This policy, and any subsequent amendment to it, must be adopted by the special consultative procedure. A summary of the policy must be included in the Long-Term Council Community Plan (LTCCP).

Section 5 of the Act defines 'significant' and 'significance' as follows:

Significance, in relation to any issue, proposal, decision, or other matter that concerns or is before a local authority, means the degree of importance of the issue, proposal, decision, or matter, as assessed by the local authority, in terms of its likely impact on, and likely consequences for:

(a) the current and future social, economic, environmental, or cultural well-being of the district or region;
(b) any persons who are likely to be particularly affected by, or interested in, the issue, proposal, decision or matter;
(c) the capacity of the local authority to perform its role, and the financial and other costs of doing so.

Significant, in relation to any issue, proposal, decision, or other matter, means that the issue, proposal, decision, or other matter has a high degree of significance.

General Approach

Council (or as delegated to Council's Chief Executive) will consider each proposal or decision on a case by case basis to determine whether the decision is significant. In determining this issue, Council will apply the criteria and procedures and consider the thresholds set out in this policy and will also consider each of the following:

- the likely impact/consequences of the decision or proposal for the current and future social, economic, environmental, and cultural well-being of the community;
- the parties who are likely to be particularly affected by or interested in the decision or proposal;
- the likely impact/consequences of the decision or proposal from the perspective of those parties identified above;
- the financial and non-financial costs and implications of the decision or proposal having regard to Council's capacity to perform its role.

The more significant or material the impact or consequences of the decision or proposal, the higher the standard of compliance required with Part 6 of the Act, and the more likely the matter will be 'significant'.

It is helpful to bear in mind that the references to 'significance' in the Act are intended to ensure that appropriate attention and consideration is given to matters based on their relative importance to the region. Council will not make a decision or proceed with a proposal which it considers to be significant, unless it is first satisfied that sections 77, 78, 80, 81 and 82 of the Act have been appropriately observed.

The procedures below are designed to ensure observance of this policy.

Thresholds, Criteria and Procedures

Thresholds

Application of thresholds is not necessarily conclusive. A matter which does not meet any particular financial threshold may still be significant if the criteria below suggest that it is. Accordingly no financial thresholds are included in this policy.

Criteria

If a decision or proposal satisfies one or more of the following criteria, the matter is likely to have a high degree of significance:

- the decision or proposal affects all or a large portion of the regional community in a way that is not inconsequential;
- the impact or consequences of the decision or proposal on the affected persons (being a large portion of a local community) will be substantial;
- the financial implications of the decision on Council's overall resources are substantial.

Matters which do not satisfy these criteria may have a high degree of significance where it is known that the decision will nevertheless generate a high degree of controversy within the regional community or a local community.

Procedures

Issues, proposals, decisions or other matters that are part of the normal day-to-day operations of Council and where applicable financial provision has been provided in the adopted Annual Plan will not require consideration for significance.

Authority is delegated to the Chief Executive to determine which, if any, issue, proposal, decision or other matters that may arise, will require a formal assessment of its significance to be carried out, in accordance with the guidelines of this policy.

In cases where formal assessment is carried out, the paper to Council covering the decision must include a statement indicating that the issue of significance has been considered, with a recommendation to Council assessing the significance of the proposal or decision.

If the proposal or decision is considered to be significant, the report will also include a statement addressing the appropriate observance of such of sections 77, 78, 80, 81 and 82 as are applicable.

Strategic Assets

Section 5 of the Act defines strategic asset as follows:

Strategic asset, in relation to the assets held by a local authority, means an asset or group of assets that the local authority needs to retain if the local authority is to maintain the local authority's capacity to achieve or promote any outcome that the local authority determines to be important to the current or future well-being of the community; and includes:

(a) any asset or group of assets listed in accordance with section 90(2) by the local authority; and
(b) any land or building owned by the local authority and required to maintain the local authority's capacity to provide affordable housing as part of its social policy; and
(c) any equity securities held by the local authority in -
    (i) a port company within the meaning of the Port Companies Act 1988
    (ii) an airport company within the meaning of the Airport Authorities Act 1966.

For the purposes of section 90(2) of the Act, Council considers the following assets to be strategic assets:

- Shareholding in the Port of Napier;
- The Heretaunga Plains Flood Control Scheme;
- Upper Tukituki Catchment Control Scheme;
- Tutira Country Park.

Council owns a number of assets that, when managed 'as a whole', it considers to be strategic. However, not all trading decisions made regarding these assets are regarded as significant nor do they affect the asset's strategic nature. For example, the Heretaunga Plains Flood Control Scheme is strategic, but small parcels of land that make it up may not be, and the purchase or sale of such parcels of land are unlikely to amount to a significant decision.

Review of Policy

In accordance with the Local Government Act 2002, this policy will be reviewed and open for public comment via the special consultative procedure, on no less than a three yearly basis. It will also be reviewed and consulted on at any other time within a three year period when amendment to the policy may be required.

'Significant' and 'Significance' in other Contexts

The Local Government Act 2002 uses the terms' significant' and 'significance' in a number of contexts.

Unless it is inappropriate in the context, the criteria set out in this policy and in the statutory definitions will apply.