

**Hawke's Bay Regional Council's
Annual Plan 2017-18**

Part 1 - Introduction

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Chair and CE Comments

Chair and Chief Executive's Comments

As we prepared this year's Annual Plan, we learned a lot about our community's genuine passion for Hawke's Bay's natural environment and the wide support for this Council's plans to take greater action.

We firmly believe that a strong natural environment is the heart of a healthy, productive region. The Council's refreshed Strategic Plan for 2017-21 will highlight this as we step up with our plans and actions, working on your behalf to enhance our region.

We deliver services and activities to help everyone in our community make the best use of our land, water and marine areas. Most importantly, we prioritise the needs of the environment over the demands made of it.

As a Regional Council, we do not look after household rubbish or roads, libraries or swimming pools. Our role is vested in the natural environment, along with infrastructure like stopbanks, cycle trails, buses, monitoring technology, the Hawke's Bay Regional Investment Company and ownership of Napier Port, to name a few.

Six Environment Hot Spots

About half of this year's 137 submissions supported our plan to fast track cleaning up six environmental hot spot areas, through rates, with a \$1 Million action fund. We hope to add financial support from the Ministry for the Environment's Freshwater Improvement Fund, though we won't learn the outcome of our applications until later in 2017.

Of the proposals put up for consideration in the Annual Plan 2017-18 consultation document, all of HBRC's 'preferred options' were adopted.

These include the clean-up of:

- Lake Tūtira
- Ahuriri Estuary
- Whakaki Lake & Wairoa River
- Lake Whatuma & Tukituki catchment
- Karamū Stream, and
- the marine environment.

As we prepared this year's Annual Plan, we learned a lot about our community's **genuine passion** for Hawke's Bay's natural environment and the wide support for this Council's plans to take action.

Other Funding

This year's plan also includes specific funding to improve our region in the areas of freshwater and biodiversity.

We don't underestimate the big job there is to look after Hawke's Bay's unique environment – where it is natural and where it has been adapted for our use. With your continuing support, we look forward to tackling the challenges that face us.

Please contact us at any time with your questions or concerns.



Rex Graham
Chair



James Palmer
Chief Executive

Chair and CE Comments

Vision and Values

Hawke's Bay Regional Council is this region's environmental management and economic development authority. We are all about the wise use of Hawke's Bay's natural resources, now and for generations to come. We are also all about the people of this region, employing our own passionate team of around 190 people who live all over Hawke's Bay and take pride in the work we do on your behalf.

Our Role

As an organisation, Hawke's Bay Regional Council enables the wise use of the region's natural resources, taking on a leadership role in the areas of:

- Natural resource knowledge and management
- Natural hazard assessment and management
- Regional strategic planning
- Regional scale infrastructure and services, and
- Economic development.

Our Vision

Our vision is an important driver for our talented team of people. Our aspiration is for a connected and vibrant region with resilient communities, a prosperous economy, and a clean and healthy environment.

Our Values

Our values - developed with our people - are Leadership, Excellence, Integrity, Innovation and Partnerships.

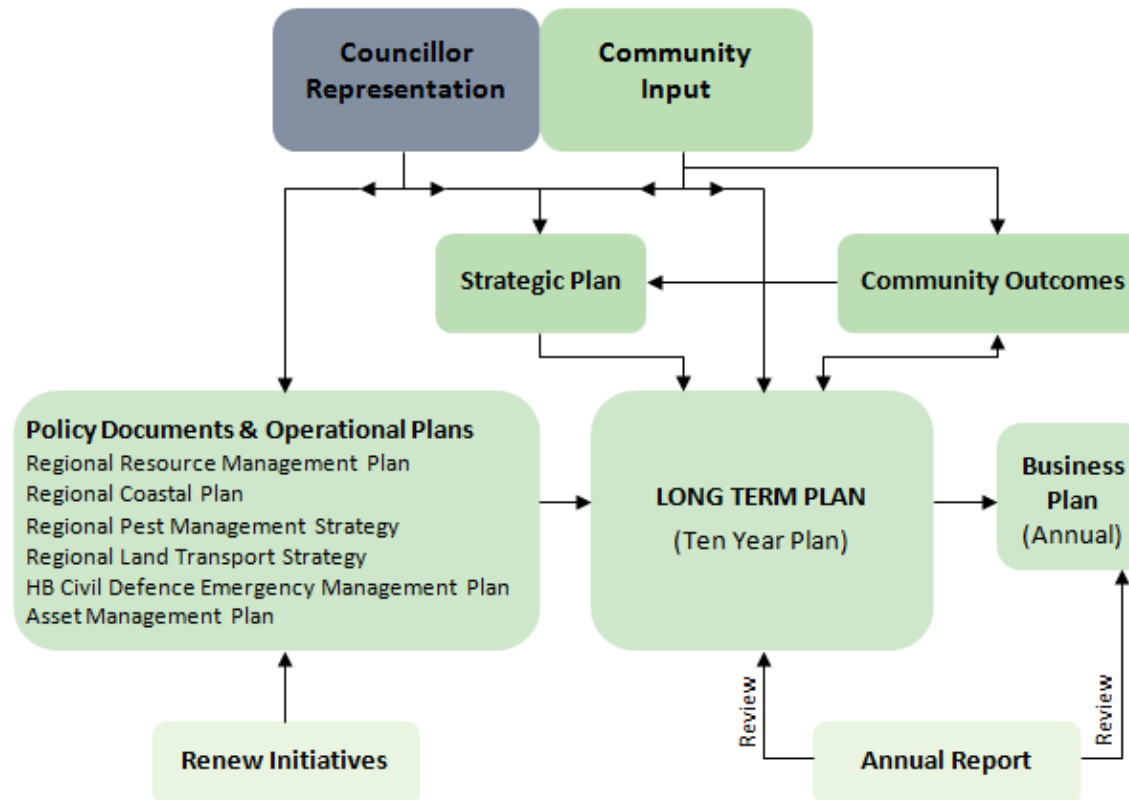
A connected and vibrant region with resilient communities, a prosperous economy, and a clean, healthy environment.

Planning Cycle

Planning Cycle

This Long Term Plan is part of a ten year planning cycle.

HBRC is required to prepare many other documents. Many of the 'levels of service' included in the Long Term Plan come from various policy documents and operational plans prepared by HBRC and they contain greater detail. An Annual Report is produced each year, documenting annual performance targets and financial outcomes.



Community Outcomes

Community Outcomes

A Regional Approach to Community Outcomes

The five Hawke's Bay councils - Hastings District Council, Napier City Council, Central Hawke's Bay District Council, Wairoa District Council and Hawke's Bay Regional Council undertook a regional approach and worked collectively to identify community outcomes in 2004. These outcomes are still considered to be relevant today.

What Are Community Outcomes?

These are goals that the community believes are important for its present and future social, economic, environmental and cultural well-being.

There are nine community outcomes:

- An environment that is appreciated, protected and sustained for future generations
- A strong, prosperous and thriving economy
- Transport, infrastructure and services that are safe, effective and integrated
- A vibrant community
- A lifetime of good health and well-being
- Supportive, caring and inclusive communities
- Strong regional leadership and a sense of belonging
- Safe and accessible recreational facilities
- Communities that value and promote their unique culture and heritage.

Information about how HBRC's activities contribute to community outcomes, either in a direct or indirect way or in a supporting role, is detailed in Part 2 of this Plan.

How do Community Outcomes relate to Other Key Strategic Planning Documents or Processes?

The Community Outcomes are very high-level statements and therefore they are relevant to Council's strategic planning processes. HBRC's Strategic Plan builds on these outcomes under the headings Resilient Ecosystems, Resilient Economy and Resilient Communities.

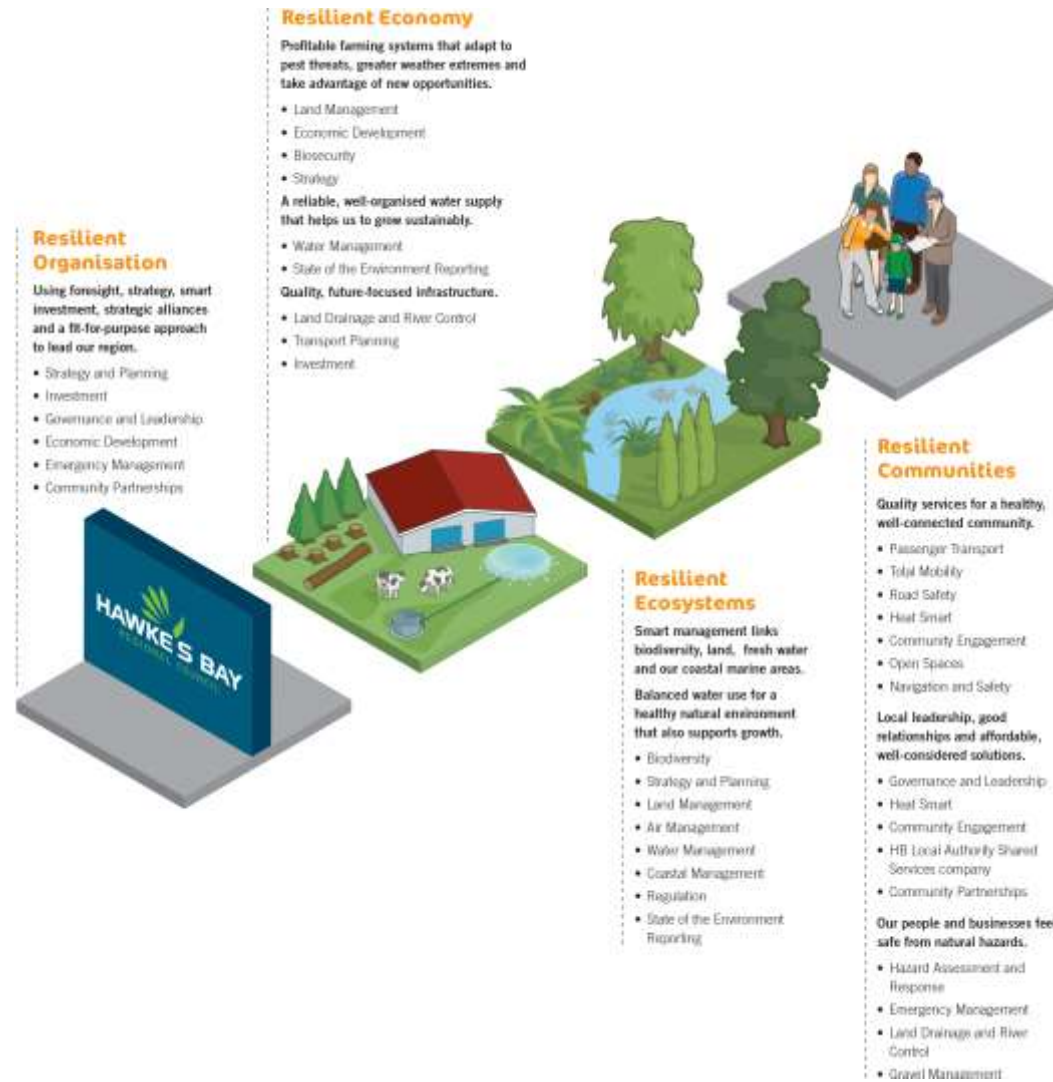
A number of other strategic planning documents prepared under legislation determine much of HBRC's programmes & activities. These include:

- Regional Policy Statement
- Regional Resource Management Plan
- Regional Coastal Environment Plan
- Regional Plant Pest and Animal Pest Management Strategy
- Regional Land Transport Plan
- Regional Public Transport Plan
- Civil Defence Emergency Management Group Plan
- Flood and Drainage Scheme Asset Management Plans.

Each strategic planning document is prepared under the processes contained in the relevant legislation.

Strategic Goals

Our key activities link back to our focus on resilience in our communities, in our ecosystems and our economy, driven by HBRC as a regionally-focused organisation.



Financial Overview

Annual Plan in Brief

What we will do in 2017-18

The Annual Plan 2017-18 has been prepared using year three of the Long Term Plan 2015-25 or LTP as its base.

Details of the Council's work programmes are in the 'Groups of Activities' Part 2 of this Plan.

HBRC intends to spend \$124.26 million in 2017-18, consisting of:

	(\$'M)
EXPENDITURE	
<i>Groups of Activities</i>	
Operating	40.37
Finance Costs	2.65
Depreciation & Amortisation	2.74
	45.76
<i>Capital</i>	
Fixed Assets	3.71
Development of Infrastructure	1.88
Forestry Assets	0.02
Investments - Advances to HBRIC Ltd	67.67
Investments - Advances to Napier - Gisborne Rail	0.09
Community Lending	1.26
Loans Repaid	3.87
	78.50
Total Expenditure	124.26
FUNDING	
<i>Operating Revenue</i>	
Uniform Annual General Charge	2.57
General Rates on Land	1.73
Targeted Rates	14.83
Grants & Assistance	3.63
Direct Charges and Other Revenue	7.14
Investment Revenue	15.28
	45.18
<i>Loan Funds</i>	11.24
<i>Special Reserve Funds</i>	67.37
<i>Operating Reserve Funds</i>	0.47
Total Funding	124.26

Annual Plan Highlights

Surplus / Deficit

This Plan forecasts a \$469,000 deficit. This compares to a \$16,000 surplus estimated in the LTP for the 2017-18 financial year. The main reason for this deficit increase is \$428,000 of unspent items carried forward from the 2016-17 year.

Rates

The LTP proposed a 2017-18 total rates increase of 4.88%. This plan now proposes an increase of **9.88%**. The reason for this increase is a one-off rates increase to create a \$1 million environmental kick-start fund to accelerate action on six environment hot spots.

Revenue Assumptions

There have been some significant changes to revenue assumptions used in the LTP which have affected HBRC income streams. Briefly, these are:

- *HBRIC Ltd Dividends* – the LTP assumed that the \$80 million investment in the Ruataniwha Water Storage Scheme would be completed by 2017-18 and therefore the dividends from HBRIC Ltd would include the 6% return on that investment. However, there have been many delays for the Ruataniwha Scheme to reach financial close. This has slowed the rate of funds drawn down and the dividend returns from HBRIC Ltd are less.
- *Interest* – the LTP assumed an interest rate of 6.0% on investment income for the 2017-18 year. The Official Cash Rate (OCR) dropped away in the first few years of the LTP and only now is showing some strengthening. This Annual Plan has revised the interest rate on investment income to 3.65%. Interest returns have actually increased compared to the LTP, due to having the funds available for investment in the Ruataniwha Scheme sitting in term deposits until required. This partially offsets the loss in dividend income above.

Financial Overview

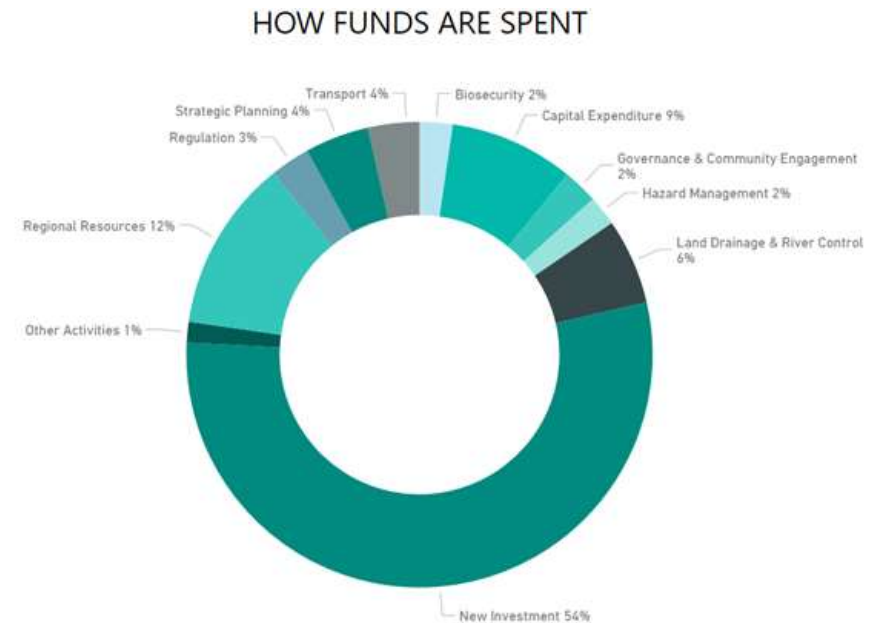
- *Wellington leasehold land* - The LTP assumed the sale of the Wellington leasehold land owned by HBRC in the 2016-17 year. The Annual Plan assumption is to defer the sale of these properties as HBRC is receiving good returns from these investments compared to market interest rates. This sale will be replaced by short-term interest-only borrowing until the properties are sold in future years.
- *Subvention payments* - The LTP assumed a targeted assistance donation would be paid to Te Mata Park Trust in the 2015-16 year of the LTP. There has been delays in finalising the project and the first part of the donation was not paid until the 2016-17 year. Therefore the associated tax benefits have been moved out to 2017-18.
- *Napier - Gisborne Rail* – The Napier-Gisborne Rail (NGR) project has been delayed, therefore the return on investment assumed in the LTP has been moved out a year.

Other Assumptions

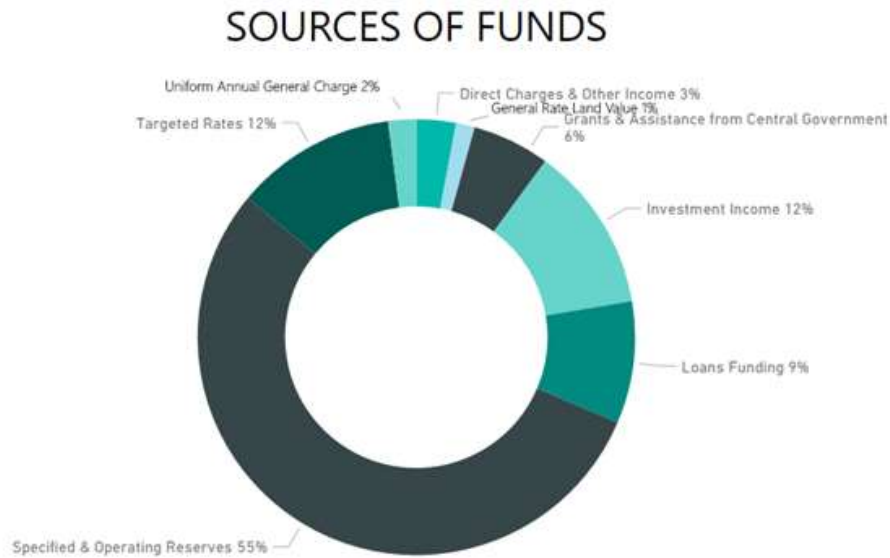
- The Ruataniwha Scheme has been in development for far longer than expected. The Council has already consulted with the community and agreed to invest up to \$80 million as part of the LTP process. This Plan assumes that the project will proceed once various conditions precedent are met.

The rate of drawdown of funds varies from that originally forecast in the LTP. This Annual Plan now proposes that remaining \$66 million will be drawn down in 2017-18. It does not affect the Council's overall level of investment in the scheme, which remains at up to \$80 million.

Analysis of Total Expenditure and Funding



Financial Overview



Assets - Investments

The Council has a strong balance sheet with assets greatly exceeding liabilities. HRBC largest assets are investment assets, estimated as \$452 million at 30 June 2018.

Included in these investments is the Council's investment in HBRIC Ltd, made up of

- \$272.3 million in Napier Port
- \$80.0 million in the Ruataniwha Water Scheme
- \$1.7 million in Ngaruroro Water Scheme

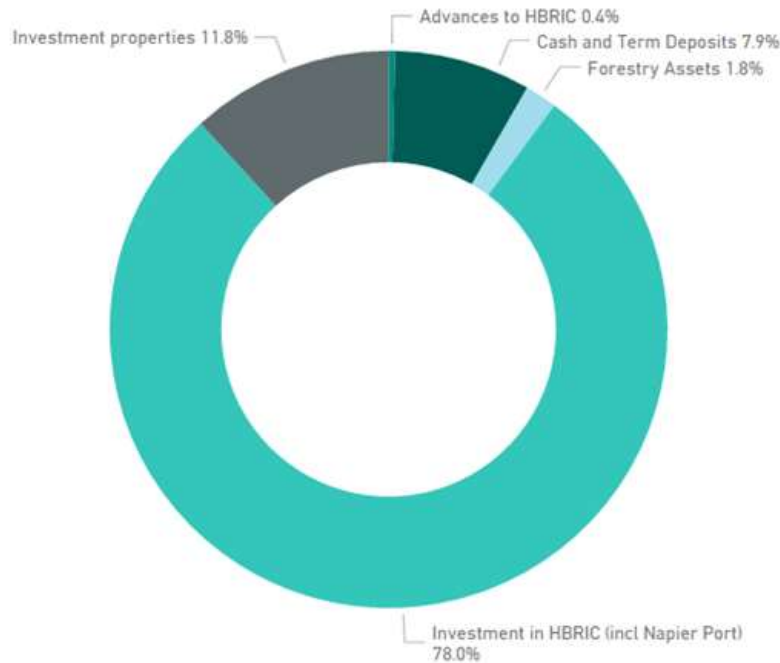
HBRC is also estimated to have:

- \$36.0 million in cash balances and reserve funds on deposit at 30 June 2018
- \$40.0 million of Napier Leasehold endowment land
- \$13.3 million of Wellington Leasehold property.
- \$0.3 million of investment in the Napier/Gisborne Rail project
- \$8.4 million of Forestry investments.

The following chart shows analysis of the investments projected to total \$452 million at 30 June 2018.

Financial Overview

PROPOSED INVESTMENT AT 30 JUNE 2017



Assets - Other

As at 30 June 2017 infrastructure assets are projected to total \$176 million however, because of the nature of these assets (e.g. stopbanks), there are restrictions on their use and saleability.

Liabilities

The Council has a policy of raising loans to fund certain types of capital expenditure such as the construction of river control and flood protection assets. These loans are taken out on behalf of certain river control and flood protection scheme ratepayers and will be fully repaid by them during the period covered by the term of the loan.

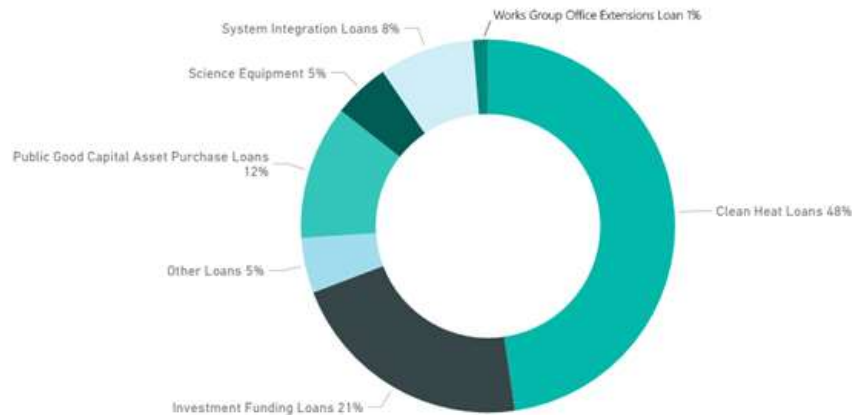
Loan funding achieves intergenerational equity by ensuring that a portion of the cost of the major projects is paid for by the beneficiaries of the service over the year to which the benefit applies.

In this plan the Council proposes to borrow up to \$11.2 million in the 2017-18 financial year. Of that sum, \$6.5 million is proposed to be short-term borrowing on interest-only terms, to be used to fund investments instead of selling the Wellington Leasehold Property, which was proposed in the 2015-25 LTP. The remaining borrowing of \$4.7 million is to cover will fund advances to homeowners who require assistance to insulate and provide clean heat to their homes (\$2.8 million), to fund advances to homeowners who want to establish solar water heating in their homes (\$0.6 million), for ICT systems (\$1.2 million) and for public good capital projects (\$0.1 million.)

Financial Overview

The Annual Plan estimate is that at 30 June 2017 external loans outstanding will be \$30.2 million. An analysis of these loans is shown in the chart below.

PROPOSED LOAN BALANCES AT 30 JUNE 2017



Additional Liability related to Funding of HBRC Investments

This plan estimates that the ACC leasehold liability at the end of June 2018 will be \$23 million. HBRC sold the cash flows generated from the portfolio of Napier leasehold properties for a period of 50 years ending 30 June 2063. This transaction provided a lump sum payment from the Accident Compensation Corporation (ACC) of \$37 million which was included in the financial assets to be used to fund investment activity. The liability reduces every year as it gets closer the end of the 50 year period and also reduces if any of the properties are sold.

Financial Overview

Hawke's Bay Regional Council - Annual Plan 2017/2018					
ANNUAL PLAN 2017/18					
RATES COMPARISON					
	<u>2017/2018</u> Proposed Annual Plan \$'000	<u>2016/2017</u> Actual Total Rates \$'000	Rates Variation Increase/ (Decrease) \$'000	<u>2017/2018</u> Forecast LTP \$'000	Rates Variation Increase/ (Decrease) \$'000
<u>General Funding Rates</u>					
Uniform Annual General Charge	2,568	1,946	622	2,058	510
General Rate on Land Value	1,733	1,248	485	1,320	413
Total General Funding Rates	4,301	3,194	1,107	3,378	923
Increase / (Decrease) relative to prior year			34.66%		27.32%
<u>Targeted Rates</u>					
<u>Regional Resources</u>					
Clean Heat Administration	583	583	0	583	0
<u>River Control & Flood Protection</u>					
Upper Tukituki	733	714	19	740	(7)
<u>Separate Schemes</u>					
Makara	92	90	2	93	(1)
Paeroa	20	20	0	20	0
Porangahau	36	36	0	36	0
Poukawa	33	32	1	33	0
Ohuia-Whakaki	66	64	2	67	(1)
Esk	6	6	0	6	0
Whirinaki	10	9	1	10	0
Maraetotara	11	11	0	11	0
Te Ngarue Stream	3	3	0	3	0
Kopuawhara	8	8	0	8	0
Opoho	20	19	1	20	0
Kairakau Community	9	9	0	9	0
Wairoa Rivers & Streams	161	158	3	162	(1)
Central & Southern Areas	233	229	4	235	(2)
Heretaunga Plains Rivers	2,176	2,134	42	2,188	(12)
<u>Heretaunga Plains Drains</u>					
Napier/Meeanee/Puketapu	906	876	30	916	(10)
Brookfields/Awatoto	136	134	2	137	(1)
Pakowhai	126	126	0	126	0
Muddy Creek	222	218	4	224	(2)
Haumoana	131	129	2	132	(1)
Karamu & Tributaries	1,243	1,207	36	1,256	(13)
Raupare/Twyford	150	148	2	166	(16)
Tutaekuri/Mateo	214	205	9	217	(3)
Puninga	69	69	0	69	0
<u>Pest Control</u>					
Plant Pest Control	416	408	8	418	(2)
Animal Pest Control	1,291	1,271	20	1,304	(13)
Bovine TB Regional Vector Control	0	0	0	0	0
<u>Transport</u>					
Subsidised Passenger Transport	1,604	1,604	0	1,702	(98)
<u>Strategic Direction</u>					
Economic Development	2,310	1,997	313	2,396	(86)
<u>Land Management</u>					
Land Use Monitoring	109	55	54	106	3
Sustainable Land Management	633	606	27	654	(21)
<u>Emergency Management</u>					
HB Civil Defence	1,063	1,033	30	1,066	(3)
Total Targeted Rates	14,823	14,211	612	15,113	(290)
Increase relative to prior year			4.31%		-1.92%
TOTAL RATES	19,124	17,405	1,719	18,491	633
Increase / (Decrease) relative to prior year			9.88%		3.42%