Hawke's Bay Regional Council

Long Term Plan 2015-25

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Part 6 - HBRC's Policies

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General Information

Reporting Entity

The Hawke's Bay Regional Council (Council) is a regional local authority governed by the Local Government Act 2002 and is domiciled in New Zealand.

Its primary objective is to provide services and social benefits for the community rather than make a financial return. Accordingly, Council has designated itself as a Tier 1 public benefit entity under PBE IPSAS Accounting Standards.

The financial statements are for the ten consecutive years beginning on 1 July 2015 and were authorised for issue on 24 June 2015 by Council.

Basis of Preparation

The financial statements have been prepared in accordance with the Local Government Act 2002, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

Council has not presented group prospective financial statements because it believes that parent prospective financial statements are more relevant to users. The main purpose of prospective financial statements in a Long Term Plan is to provide users with information about the core services that Council intends to provide to ratepayers and the expected cost of those services. And consequentially how much Council needs by way of rates to 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.

These financial statements have been prepared in accordance with NZ GAAP as appropriate for public benefit entities adopting PBE IPSAS Accounting Standards and other applicable New Zealand Financial Reporting Standards.

These prospective financial statements comply with all of the requirements of PBE FRS 42.

There have been no transitional provisions applied to these prospective financial statements due to the new PBE reporting standards.

The statements have been prepared under the historic cost convention, as modified by the revaluation of land and buildings, infrastructure assets, hydrological equipment, investment property, forestry assets and financial instruments.

The Council’s functional currency is New Zealand dollars and the statements have been presented in thousands of dollars ($’000) exclusive of New Zealand Goods and Services Tax (GST) except for trade accounts payable and receivable, which are stated at GST inclusive amounts.

Summary of Significant Accounting Policies

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. There have been no changes in accounting policies from the previous Annual Plan

1. Inventories

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

2. Trade Receivables

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

3. Plant, Property and Equipment

3.1 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.

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.

3.2 Infrastructure Assets

Infrastructure assets are tangible assets that are necessary to fulfil the 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 the 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.

3.3 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 the Council or group and the cost can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive revenue and expense during the financial period in which they are incurred.

3.4 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 category are charged against revaluation reserves in equity. All other decreases are charged to the statement of comprehensive revenue and expense.

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.

3.5 Other Adjustments

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

4. Investment Property

Investment property is leasehold land in Napier and Wellington held to earn rental income and for capital appreciation. Such property is initially recognised at cost. At each balance date investment property is measured at fair value, representing open market value determined annually by independent, professionally qualified valuers. A gain or loss in value is recorded in the statement of comprehensive revenue and expense for the period in which it arises.

5. Forestry Crops

Forestry crops are measured at their fair value less estimated point-of-sale costs each balance 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 statement of comprehensive revenue and expense for the period in which it arises.

6. Financial Assets

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 date, all financial asset designations are re-evaluated.

6.1 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 revenue and expense 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 date.

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

6.2 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 are included in non-current assets except when maturities are shorter than 12 months from balance 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 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 statement of comprehensive revenue and expense for the period in which they arise.

6.3 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 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 statement of comprehensive revenue and expense for the period in which they arise.

6.4 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 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. Where the discounted valuation technique is used, valuations are carried out at triennially. In the intervening years an impairment exercise is carried out. Any gain or loss in value is recognised directly in equity through the statement of changes in net assets / 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 statement of comprehensive revenue and expense.

At each balance 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 statement of comprehensive revenue and expense. Such a transfer is not reversible.

7. Intangible Assets

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

8. 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 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 statement of comprehensive revenue and expense 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.

9. Depreciation and Amortisation

Land and hard dredging are 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 date. Major depreciation and amortisation periods are as follows.

Major Depreciation and Amortisation Periods

Asset Category	Years
Buildings	10 - 100
Site Improvements	10 - 40
Vehicles	3 - 10
Plant & Equipment	3 - 25
Computer Equipment	3 - 5
Computer Software & Licences	3 - 10
Infrastructure Assets	25 - 70
Dredging	6 - 8

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 flood event.

10. 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 statement of financial position.

11. 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 statement of comprehensive revenue and expense 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 date.

Borrowing costs are recognised as an expense when incurred except to the extent that they are capitalised. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalised as a part of the cost of that asset.

12. Income Tax

Income tax expense charged to the statement of comprehensive revenue and expense includes both current and deferred tax and is calculated after allowing for non-assessable income and non-deductible costs.

Deferred income tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for where the initial recognition of assets and liabilities does not affect either accounting or taxable profit. The amount of deferred tax provided is based on tax rates enacted or substantively enacted at the balance date and are expected to apply when the related deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

13. 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 the Group's obligation at balance date.

14. 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 measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense

Provisions are not recognised for future operating losses.

15. Revenue Recognition

Revenue comprises the fair value for the sale of goods and services, net of GST, rebates and discounts and after elimination of sales within the Group. Revenue is recognised as follows.

- Sales of goods are recognised when a product is sold to a 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.

16. Leases

Finance leases, which transfer to Council substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the statement of comprehensive revenue and expense as finance costs.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

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 statement of comprehensive revenue and expense on a straight-line basis over the period of the lease.

17. 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
- 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 and interest rate swaps 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.

Interest rate swaps are entered into to manage interest rate risk exposure.

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 is not required for financial instruments subject to credit risk.

18. 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 date.

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

The Group 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.

18.1 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 statement of comprehensive revenue and expense. The Group accounts for hedges of foreign currency risk of a firm commitment as cash flow hedges.

18.2 Derivatives that Do Not Qualify for Hedge Accounting

Certain derivative instruments do not qualify for hedge accounting and changes in the fair value of these instruments are recognised immediately in the statement of comprehensive revenue and expense. Any changes in the fair value of interest rate swaps due to changes in interest rates are recognised in the statement of comprehensive revenue and expense in the period in which they occur.

19. Foreign Currencies

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

20. 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.

Significant Forecasting Assumptions

Introduction

In preparing the Long Term Plan for 2015-25 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.

HBRC Activities and Functions

HBRC will continue to perform our existing functions in accordance with current legislation and current Council policies. These functions will be primarily carried out to meet our statutory role and responsibilities and to help meet the community outcomes for the region. This plan links community outcomes to HBRC activities within each group of activities.

Financial Presentation

Council has not presented group prospective financial statements because it believes that parent prospective financial statements are more relevant to users. The main purpose of prospective financial statements in a Long Term Plan is to provide users with information about the core services that Council intends to provide to ratepayers and the expected cost of those services. And consequentially how much Council needs by way of rates to 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

General Assumption

HBRC has not taken into account forecast changes in population, economic activity or climate change. It is considered that the impact of any changes in these statistics will have a minimal or very low effect on the plan's projections.

A significant disaster event, particularly a flood, may have a major impact on the work programmes set out in this Long Term Plan. Following such an event, HBRC will focus on response to community needs that arise as a result of the event and community recovery following the event.

Interest Rates

Information received from a number of NZ trading banks indicates that the interest rate assumptions below for borrowing would be appropriate for inclusion in the plan:

- For the 2015-16 financial year – 5.5%
- For the 2016-17 financial year – 6%
- For the 2017-18 financial year – 7%
- For the remainder of the plan until 30 June 2025 – 7.5%

Information received from a number of NZ trading banks and financial commentary indicates that the official cash rate could reduce by a further 0.25% in September 2015 from its current level of 3.25%. The rise in the official cash rate will be slow and could be as far out as the end of 2016, beginning of 2017. The following rates of interest on deposits have been used in this plan:

- For the 2015-16 financial year – 4.3%
- For the 2016-17 financial year – 5%
- For the 2017-18 financial year – 6%
- For the remainder of the plan until 30 June 2025 – 6.5%

Cost Adjusters

All expenditure projections in the statements and assets in the statement of financial position are stated in 2015-16 dollar values; however, for the year 2016-17 and subsequent years of the plan, the following adjustments (Table 1) have been made to allow for the effect of inflationary pressures on costs.

Table 1: Cost Adjusters						
Year	Wages, Salaries & other Salary Related Costs		External Expenditure		Assets	
	Annual (%)	Cumulative (%)	Annual (%)	Cumulative (%)	Annual (%)	Cumulative (%)
2016-17	1.8	1.8	2.3	2.3	2.3	2.3
2017-18	1.9	3.7	2.5	4.8	2.6	4.9
2018-19	2.0	5.7	2.6	7.4	2.6	7.5
2019-20	2.1	7.8	2.7	10.1	2.7	10.2
2020-21	2.2	10.0	2.9	13.0	2.8	13.0
2021-22	2.3	12.3	3.0	16.0	3.0	16.0
2022-23	2.4	14.7	3.1	19.1	3.1	19.1
2023-24	2.5	17.2	3.3	22.4	3.3	22.4
2024-25	2.6	19.8	3.4	25.8	3.5	25.9
*These assets include infrastructure, land, buildings, hydrological assets and Hawke's Bay Regional Investment Company Limited equity and are derived using an average price change from each of the asset categories.						

The above rates have been taken from the BERL forecasts of price level adjustors, dated October 2014.

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

Investments

Investment Activities

It is proposed to invest around $97.8M during the period of the Long Term Plan in new and existing investments in water storage (Ruataniwha Plains and Ngaruroro), rail transport (Napier Gisborne Railway) and forestry. HBRIC will continue to invest in the Ruataniwha Water Storage Scheme (RWSS) using funding provided by HBRC and may also invest in the Ngaruroro Water Storage Scheme (NWS) if it is established as viable as a result of a feasibility study. Investment in Napier Gisborne Railway (NGR) and forestry is expected to remain on HBRC's own statement of financial position.

The following Table 2 shows the estimated returns on these investments over the course of this LTP.

Table 2: Major Proposed Investments		
Proposed Investment	Expected Rate of Return	Next Step
Ruataniwha Plains Water Storage	6%	Financial Close *Feb 2016*
Ngaruroro River Water Storage	6%	Feasibility Study 2015-18
Napier Gisborne Railway	6%	Reinstatement of line 2015-18
Forestry	6%	Ongoing

While these projects are expected to yield cash income after they become operational, they will accrue holding costs on funds advanced by HBRC to fund them (either directly or through HBRIC) at the expected rates of return (refer to table 2 above), until they are generating positive cash flows from operations.

Napier-Gisborne Railway (NGR)

HBRC has made a provision to invest up to $5.5M in the reinstatement of the Napier-Gisborne Railway (NGR) to operational status. HBRC is awaiting a decision from Kiwirail on the next steps in the future of this line.

For planning purposes this LTP assumes HBRC will be a financial stakeholder in future operations of the line.

Table 3: NGR

Investment	Significant Assumptions
NGR	Council will invest up to $5.5M to assist in the objective to achieve the reinstatement of rail freight services north of Napier.

NGR will be retained on HBRC's statement of financial position in the initial phases of development of the business case. When the project moves to the operational and commercial phase, HBRC will consider transferring this investment to HBRIC thus utilising the commercial expertise held in this company.

Forestry

During the course of the LTP, HBRC will manage the following forestry assets.

Table 4: Forestry Assets - Carbon Forestry Investments

Site Name	Area (ha)	Significant Assumptions
CHB	180	Average carbon price over LTP of $3.80/tonne.
Mahia	35	Return on use of funds based of 6% this being at a discounted rate to HBRC's borrowing rates as set out in this policy.
Waihapua	250	No material new investment.

Table 5: Forestry Assets – Forestry Investments

Site Name	Area (ha)	Significant Assumptions
Tangoio	320	20-30 ha to be harvested over 2021-2023 period.
Tutira	140	140 ha to be progressively harvested starting in 2018-2019 and ending in 2020-2021. The plan provides for capital funding to cover roading infrastructure for harvesting and for re-establishing of forests.
Tutira: Manuka Honey	150	Actual investment returns from UMF honey, starting in 2015-2016, will not fall significantly over the life of the investment.

HBRC's forestry investments are restated to fair value each year in accordance with Council policy, however for the purposes of this LTP the 'property' price adjusters as determined by BERL have not been used because they are not considered to be relevant to HBRC's particular portfolio of forestry land.

This LTP therefore assumes that changes in the value of the forestry assets is a function of additional investment made in the properties (if any) and the returns realised (if any) from the land through harvesting or sale of carbon. The scale of these effects is assumed to be 3% growth in value per annum except in years were harvesting takes place when the assumption is a fall in value of Tutira Forest is equivalent to a fall of 2% pa across the whole portfolio.

HBRIC Ltd

HBRIC Ltd, the Council's investment company, commenced activities in February 2012 and has been operating successfully since then. Its principal investments now are 100% ownership of Port of Napier Limited (PONL), which owns and operates Napier Port, and capitalised development expenditure in relation to the Ruataniwha Water Storage Scheme (RWSS). During 2015-2017 it is proposed that HBRIC Ltd will increase this investment by providing funds to implement the RWSS (design, construction and operation).

This Plan assumes that HBRIC Ltd's proposed investment in the RWSS project ($71.5M) will be completed by September 2016 and will be financed by HBRC subscribing the full amount required for investment in the form of new capital in HBRIC.

Upon financial close HBRIC Ltd will issue 71.5 million new $1 ordinary shares to HBRC and simultaneously make a call of up to 20 cents per share to repay all outstanding advances (estimated to be around $12M) made by HBRC to HBRIC Ltd for RWSS to that date. The remaining 80 cents per share will be called in instalments over the 2015-16 financial year to meet HBRIC Ltd's share of the drawdowns required for completion of the RWSS project.

In the future it is possible HBRIC Ltd will undertake any investment to be made by HBRC in the proposed Ngaruroro Water Storage Scheme (NWSS) if its feasibility is established. HBRIC Ltd will continue to hold and develop its existing investments as well as identifying, evaluating, and where appropriate, investing in, new investments.

Currently governance of HBRIC Ltd is by a Transition Board of Directors who will be replaced by a full board following completion of financial close of the RWSS project on or after 30 June 2015.

Dividends payable to HBRC will be 100% of HBRIC Ltd's Net Profit after Tax (NPAT) as stated in its Statement of Intent (SOI) for the year ending 30 June 2015. HBRIC Ltd's dividends are based on PONL's financial performance and are set at a level to also provide HBRC a return of 6% on its funding of investment in RWSS throughout the LTP. This requirement for a return on RWSS funding was included in the Council resolutions of 25 June 2014 which set out the conditions precedent for approval of funding for RWSS.

Dividend projections from HBRIC Ltd are available up to 2021-22. For the remaining years of the Plan, it is assumed dividends will increase by 10% in 2022-23 and 5% in each of the years 2023-24 and 2024-25. The higher increase in 2022-23 is supported by the anticipated boost in Napier Port income due to the completion of a high level of capital development.

The following Table 6 summarises the significant forecasting assumptions in respect of HBRIC Ltd.

Table 6: HBRIC

Investment	Significant Assumptions
PONL	Return on investment through dividends based on Napier Port's financial performance.
RWSS	Total project cost estimated to be $275M. HBRIC will invest up to $80M in equity in a limited partnership to own and operate the scheme.
NWS	HBRIC to invest up to $25M (net of a feasibility study estimated to cost $5M) as its share of construction of a scheme for the Ngaruroro River.

Set out below are the projected HBRIC Ltd dividends that have been included in this Plan:

Year	$000	Year	$000
2015-16	7,857	2020/21	12,846
2016-17	11,534	2021/22	13,567
2017-18	12,283	2022/23	14,359
2018-19	12,535	2023/24	14,882
2019-20	12,575	2024/25	15,431

These dividend projections have been based on Napier Port's dividend projections, adjusted for HBRIC Ltd projected operating costs and tax adjustments.

Funding of Investments

These investments will be funded by:

- Drawing down on existing cash reserves.
- Selling HBRC's existing portfolio of Wellington leasehold properties during the 2016-17 financial year.
- Securing contributions from Central Government and its agencies to specific investment projects.
- Additional borrowings.

Where HBRC borrows to fund proposed investments it is assumed these borrowings will be on an interest-only basis. When these investments yield a commercial return on funds invested, loans will be renegotiated to reflect some capital repayments.

Future investments (excluding investment in RWSS), made by HBRIC will be funded from a mixture of equity and advances provided by HBRC to HBRIC at no less than the Council's cost of funds for external borrowing.

Assets

Infrastructure Assets

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

Schemes are funded to a level that ensures levels of service set for each scheme in the relevant asset management plan are achieved and maintained over the life of the assets.

For the purposes of projecting annual movement in the values of this asset category to fair value, the property price adjusters covering projected movement in asset construction (Local Government cost index, capex) as set out by BERL have been used. Refer to the Infrastructure Strategy for further details on the lifecycle of infrastructure assets and funding of the replacement of significant assets.

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

Plant, Property and Equipment including Intangible Assets

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

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

For the purposes of projecting annual movement in the values of this asset category to fair value, the Local Government cost index, capex as set out by BERL have been used.

Insurance of Infrastructure Assets

HBRC currently provides cover for its infrastructure assets through a hierarchy of insurance and other available funding as follows.

1. Local Authority Protection Programme (LAPP) which covers 40% of infrastructure value above an excess of $2M applies for the 2014-15 year and may change in subsequent years.
2. Central Government, under the National Civil Defence Recovery Plan, will meet 60% of the value of infrastructure assets critical to the functioning of the community, above 0.002% of regional capital value and provided HBRC has taken demonstrable steps to meet the remainder of the cost.
3. Each flood control and drainage scheme has access to a disaster reserve account. The scheme disaster reserves are designed to meet the costs of damage that may occur in any relatively minor flood event.
4. A Regional Disaster Damage Reserve which has been set up to provide "last resort" funding for:
    - Cost of responding to and managing an event
    - Any difference between the deductible (excess on the LAPP) and the threshold for eligibility for Central Government assistance
    - Cost of reinstatement of any uninsured assets (e.g. pathways on top of stopbanks)

- Contribution towards the cost of reinstatement of infrastructure assets to an equivalent standard to that in place before the damage was incurred
- The possibility of contributing to the cost of reinstating the level of service provided by an asset being considerably more than the optimised replacement value.

The Regional Disaster Reserve is required to be maintained with between $2.75M and $3.75M of investments. The Reserve as at 31 June 2014 holds $3M.

The budgets established for the 2015-25 LTP were prepared on the basis that this reserve would not be drawn on within the 10 Year Plan period.

Dividend Equalisation Reserve

The Dividend Equalisation Reserve was established by HBRC with the intention of having funds available to provide additional regional income in years where the payment of a dividend from Napier Port or other regional income was substantially less than the levels forecast. The purpose of this reserve was therefore to insulate HBRC from needing to temporarily increase general rates to make up any shortfall in regional income.

The use of this reserve is programmed for years 1 and *6* of this Plan when income from investments is projected at levels below that required to fund HBRC's operational services. In the latter years of the Plan regional income will have strengthened through forest harvesting in HBRC's Tutira forestry block and, in the latter years of the LTP, from strengthening dividend income from HBRIC Ltd.

The Dividend Equalisation Reserve is estimated to be $1.2M at the beginning of the LTP (1 July 2015).

Funding of Open Space Initiatives and Community Facility Assistance

HBRC has adopted a policy to approve expenditure on capital related open space items and a further policy to provide assistance to community facilities within the region. This plan assumes that the majority of the initiatives as approved by these two policies will be funded by the loan facility of $7.5M. This loan facility is repayable over a 10 year period and is funded by the transfer of about $1M per annum from Council's Sale of Land Investment account.

Subsidy Rates

Funding assistance will be provided by Crown agencies, primarily the New Zealand Transport Agency at the following levels.

NZTA - Operations funding assistance rates

• Bus Services (including infrastructure, operations and maintenance)	53% (2015-16 52% (2016-17) 51% (2017-18 forward)
• Total Mobility Scheme	60%

Risks to Assumptions

The following tables (7-10) outline the risks to significant forecasting assumptions. If these assumptions prove to be incorrect, there could be a significant effect on the level of rates that HBRC plans to collect from the community. In this situation, it will re-examine its work programmes and determine if it's appropriate to rate the community or change the scope of those programmes.

Council Investment Risks

Table 7: Council Investment Risks

Investment	Assumptions	Risk to Assumption	Level of Uncertainty	Reasons and Financial Effects of Uncertainty
HBRIC Ltd	Dividends will be paid to HBRC as scheduled.	Napier Port financial performance falls short of its forecasts.	Low	A substantial part of HBRC's regional income comes from HBRIC as the majority of HBRC's investment assets are held by HBRIC. Any diminution of dividends paid by HBRIC to HBRC will have a direct negative effect on HBRC's operating position. HBRIC's ability to pay dividends relies in the first instance on the profitability and dividend payments of Napier Port, as RWSS is not likely to generate positive cash flows for HBRIC before the end of the LTP.
	Funds drawdowns for RWSS will not exceed $80M in total.	Calls for increased funding for new investments	Low	Delays in financial close and design and construction phases could lead to higher costs and consequently increased calls for funding by HBRIC potentially adversely impacting HBRC's cash flows for operations and other investments. This LTP provides funding for RWSS up to $71.5M as stated in the RWSS Statement of Proposal. Any increase on this figure would also need to meet HBRC's requirement for 6% return. HBRIC's funding structure can mitigate any risk in this regard.
Forestry Harvesting	Log prices are Ministry of Primary Industries (MPI) 5 year average CPI adjusted as at 30 June 2014.	Price for logs at harvesting is lower than forecast.	Low	Like all commodity markets timber is cyclical, however this risk can be managed by bringing forward or deferring harvesting.
	Stumpages as forecast by independent valuer as at 30 June 2014.	Stumpages fall short of forecast.	Low	Stumpage rates as forecast are considered to be conservative and actual performance of the forest should be better than forecast.

Table 7: Council Investment Risks

Investment	Assumptions	Risk to Assumption	Level of Uncertainty	Reasons and Financial Effects of Uncertainty
Forestry Carbon Investments	Carbon is sold at an average price of $3.80 per tonne	Price falls below assumed average of $3.80/tonne	Medium	Carbon prices are strongly influenced by global politics and economic performance. Prices have fallen considerably since 2012, however Council can hold carbon accumulated from forestry for long periods (i.e. 5-10 years), so can manage its selling strategy to maximise returns over the period of the plan.
Forestry Manuka Honey	Honey yield is specified by agreement with Comvita	Honey yield per hectare is lower than forecast	Low	Projected returns are based on MPI apiary data, which has been reliable to date. Manuka revenue in this LTP is relatively low and lower yields are unlikely to have a material impact on the LTP.
NGR	Costs of reinstatement of line is no more than $5.5M	Costs exceed $5.5M	Medium	Cost overruns may adversely impact HBRC's cashflows for operations and investment elsewhere.
	Establishment of viable operating business	Operating business is unable to be formed or becomes unviable	Medium	A viable operating business funded by stakeholders other than HBRC is required. If this cannot be achieved then either HBRC will have to operate the business or the proposal will not proceed. If the project does not proceed at this stage (i.e. subsequent to restoration of the track) then Council would be exposed to estimated losses of up to $920,000 per annum.
	Return to HBRC is not less than 6%	Operating company is unable to pay lease payments to HBRC of 6%	Medium	Lower returns may adversely impact HBRC's cashflows for operations or investment elsewhere.

Investment Company Risks

Table 8 summarises the principal investment risks in respect of the proposed projects of HBRIC Ltd.

Table 8: Investment Company (HBRIC Ltd) Risks

Investment	Assumptions	Risk to Assumption	Level of Uncertainty	Reasons and Financial Effects of Uncertainty
Water Storage and Harvesting (Ruataniwha Plains - RWSS)	Farmer uptake	Uptake is lower than planned	Medium	Farmer uptake of distributed water of at least 40M m3 in the first years of operations is critical for RWSS viability. Unless this threshold is met the project will not proceed. The HBRIC Ltd Board is proactively managing this risk through an extensive relationship building programme with the Central Hawke's Bay farming community and other stakeholders.
	Investment by co-investors	Low investment interest	Medium	Negotiations are ongoing with several parties. Unless investor commitment meets financial close requirements the project will not proceed.
	Project cost	Project cost rises	Low	Significant risk however is being mitigated against by strong project management by the HBRIC Ltd Board.
	Project proceeds	Project does not proceed	Low	Net after tax cost to HBRIC Ltd in this event estimated to be around $10M and funding previously earmarked for RWSS will be held for alternative investment yielding at least 6%pa. As HBRIC Ltd will be able to at least maintain dividends at a rate of 6% on the funds lost as a result of termination, there will be no impact on this LTPs regional income.
Water Storage (Ngaruroro – NWS)	Feasibility has yet to be established	Feasibility is not established	Medium	Feasibility will not be commissioned until 2015-16. If not feasible, then the project will be re-evaluated.
	HBRIC Ltd funding commitment is $30M	Funding requirement exceeds $30M	Medium	Co-investors may not be sufficient to fund project and/or costs may be higher than indicated.
Port of Napier	Dividends to HBRIC will be paid as scheduled	Port of Napier Dividends are higher or lower than forecast	Low	PONL financial performance has been improving for some years, and current dividend payments now only require around 51% of NPAT. This allows considerable reinvestment in the business to date and leaves room for a higher share of NPAT to be paid as dividends in the future.

Funding Risks

Table 9: Funding Risks				
Funding Type	**Assumption**	**Risk to Assumption**	**Level of Uncertainty**	**Reasons and Financial Effects of Uncertainty**
Sale of Wellington leasehold properties	Net value of $13M will be received on the sale.	Demand by the market is insufficient to achieve a sale at a level acceptable to HBRC	Low	HBRC would lose around $60,000 pa in interest for every $1M of reduced sale realisation value.

Other Risks

Table 10: Other Risks			
Assumption	**Risk to Assumption**	**Level of Uncertainty**	**Reasons and Financial Effects of Uncertainty**
Inflation	Inflation is higher or lower than forecast	Medium	Inflation is affected by external economic factors, most of which are outside of HBRC's control and influence. The estimate of the potential effects of the uncertainty is best illustrated by stating that for 2015-16 a move in the cost adjustors provided by BERL and used in this plan by plus or minus 0.5% would result in either an under or over provision for external expenditure of $108,000 and for employment costs of $65,000 .
Interest Rates on Borrowings	Interest rates are higher or lower than forecast	High – especially in later years of the plan	The majority of the borrowing programme proposed in this plan is to provide funding to cover loans to homeowners for clean heat installations and for the proposed activities of HBRIC. As the borrowing programme for HBRC is expected to increase in the later years of the plan, any movement in interest rates would have a greater effect on HBRC's interest expense towards the end of the plan. This plan assumes that, with the exception of RWSS, HBRIC will pay for advances at HBRC's borrowing rate. The effect of any interest rate movements on the borrowing programme can best be illustrated by stating that a 0.5% movement either up or down from the assumed levels of interest rates in this plan would result in an annual exposure of plus or minus $23,000 for 2015-16 (on borrowings of $4.7M) and for the peak year of borrowing $134,000 for 2019-20 (on borrowings of $26.8M.
Interest Rates on Deposits held for Investment	Interest rates are higher or lower than forecast	Medium	Short and long term HBRC cash deposits held for investment are estimated to be in the order of $66M at the start of this plan and will be reduced to nil by year 5 of the plan. Therefore a 0.5% movement either up or down from the assumed levels of interest rates in this plan would result in an annual exposure of plus or minus $217,000 for 2015-16 and $23,000 in 2018-19.
Occurrence of Natural Disaster	A natural disaster/flood event occurs which damages Council's property, plant and equipment	Medium	Call on commercial insurance, Local Authority Protection Programme and Government funding through the National Civil Defence Recovery Plan. The use of reserves is also available to HBRC as required.

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 the Council's Long Term 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.

Summary of Amendments to Previous Investment Policy

This is a summary of the substantive changes proposed in the Investment Policy 2015-25 from the current operating Investment Policy 2012-22. The summary below is set out by reference to the section headings of the Investment Policy 2015-25.

Section 7 Investment Classes

Investment Instruments – the quantum of investment with any one institution at any time has been changed from 25% of this investment class to 40% of this investment class. This amendment was approved by Council on 28 May 2014.

Section 8 Specific Investments

Investment Company – the performance targets have been updated to reflect those adopted by Council as part of the Hawke's Bay Regional Investment Company Ltd (HBRIC Ltd) Statement of Intent for year ending 30 June 2015.

Napier Leasehold Land – has been updated to reflect the capitalisation of cash flows for 50 years with ACC and the responsibilities under the "lease receivables purchase agreement".

All figures in section 8 have been updated to reflect the position as at 30 June 2014.

Investment Policy

1. General Policy Context

HBRC's investment policy is established in accordance with Sections 102(2)(c) and 105 of the Local Government Act 2002, and is consistent with its objectives and its Long Term Plan (LTP), and Annual Plans.

2. Purpose

The purpose of the Investment Policy is to:

- provide a framework and set of guidelines for the ongoing management of the HBRC's financial investments to achieve its strategic and financial objectives over time
- comply with the requirements of the Local Government Act 2002
- record the monitoring and reporting regime for ongoing measurement of the performance of the investment portfolio and the exercise of investment management responsibilities in pursuit of strategic and financial objectives.

3. Scope

"Investments" bound by this policy are defined as:

HBRC's financial assets and reserves which are held to produce a financial return within accepted risk parameters, and help achieve its strategic economic objectives, while collectively retaining their capital value over the period of their ownership. Capital value is the greater of historical cost of each investment or the current statement of financial position value (based on market or independent valuation) of the investment for the purposes of this definition.

Investments to which this investment policy applies include:

- financial assets held by HBRC that are not restricted in any way
- restricted reserves or funds established by HBRC for specific purposes and separately invested and accounted for, such as the Disaster Damage Reserve
- financial assets restricted in terms of the Hawke's Bay Endowment Land Empowering Act 2002 (the Endowment Act).

4. Objectives

The objectives of this investment policy are to:

- optimise long term gains in capital value of its investments for the benefit of future as well as current generations
- obtain an acceptable ongoing annual cash income from the investment portfolio as a whole
- ensure sufficient cash is available (liquidity) as needed to assist with the funding of HBRC's ongoing operations
- invest in assets that generate both financial returns (income and capital), and support the HBRC's s strategic economic development policies
- give first preference to investment in the Hawke's Bay Region, provided any such investment satisfies all other conditions of this investment policy, and subject to the availability of suitable strategic economic and financial investment opportunities in the region.

5. Responsible Investment

Investments will be made with judgment and care, under circumstances prevailing at the time which people of prudence, discretion and intelligence exercise in the professional management of financial assets.

It is not HBRC's intention to make speculative investments (such as contracts for difference in prices over time of any commodity or asset and other financial derivatives).

Its economic and financial objectives should be achieved by balancing potential risks to capital values with the potential gains to capital values and incomes that could be derived from any investment.

Prudent investment management requires managing investment risk and return by consideration of the mix of investments by investment class, and location.

In its financial investment activity, HBRC's primary objective is to protect the value of its assets. Accordingly investment may only be made in creditworthy counterparties having acceptable standing and credit ratings.

6. Specific Investment Policies

6.1 Mix of Investments

The current mix of HBRC investments largely reflects the assets transferred to HBRC at the time of Local Government reform in 1989, supplemented by investment of its cash surpluses generated since that time in property and bank cash instruments (term deposits).

As a result of a review of the mix of investments in September 2008, HBRC adopted a more active investment policy to improve financial and economic returns from its investment portfolio in its 2009/2019 Investment Policy. HBRC has since examined the advantages and disadvantages of managing the investment portfolio through an investment company, and consulted the community on its proposal to establish an investment company through a Special Consultative Process used for this purpose.

The outcome of this process led HBRC to establish a 100% owned investment company (HBRIC) to manage existing corporate investment of its shareholding in PONL and new investments made in companies in future.

HBRIC was established on 1 February 2012. A key requirement of HBRC is that HBRIC adopt an investment policy for the management of the investments that is consistent with, and reflects the purpose, objectives and requirements of this investment policy, which will remain the overriding policy document for all HBRC's investments, including any investment company and its assets.

6.2 Acquisition of Investments

New investments will be acquired from time to time within the investment classes specified in Section 7 below and in accordance with the policies and objectives recorded in Sections 2, 3, 4 and 5 above.

New investments will be made by HBRC, HBRIC and its officers in accordance with the management authorities and delegations summarised in Section 9 below.

Acquisition of new investments will be made after assessment of their benefits, costs and risks in accordance with the assessment procedures approved by HBRC from time to time.

6.3 Disposal of Investments

Sale or liquidation of investments held for special purpose reserves may only occur when the funds are required for the particular purpose each reserve was established for by HBRC.

Any disposal of unrestricted assets requires the approval of HBRC, other than those made within delegated authority granted by HBRC.

HBRC regards PONL as a strategic asset and will retain beneficial control of it through its wholly owned investment company. In the event it contemplates reducing its interest in PONL from its present 100% shareholding to not less than 51% (i.e. still retaining control) by selling shares to a third party (or parties), it will comply with the provisions of Section 97(1)(b) of the Local Government Act 2002 where "a decision to transfer ownership or control of a strategic asset" is to be considered. HBRC will use either the Annual or LTP process, or a separate Special Consultative Process, it deems appropriate at the time, to obtain the views of ratepayers and stakeholders on its proposed sale of shares before committing to it.

HBRC also wishes to retain continuing flexibility in relation to its Napier endowment property to sell the annual rental cash flows arising from part or all of this endowment property and other investment property in Wellington and Hawke's Bay.

HBRC wishes to retain the right to use a limited amount of funds from the proceeds of the disposals of leasehold property for purposes other than reinvestment in the investment classes of Section 7 of this policy, where appropriate. Such purposes will be restricted to capital related projects, loans (including interest free loans), and servicing the costs of borrowings by HBRC used for these purposes and may be initiated by HBRC or other organisations in the region. When proposing such a course of action, HBRC will, subject to the exceptions stated below, adopt a special consultative process under the Act which will ensure a fully inclusive decision making process with the Hawke's Bay regional community. This process is intended to extensively canvass the community's views and seek their input into any such proposals.

There will be no requirement to carry out a special consultative process when:

- no more than $300,000 of sale proceeds will be used for any one project, or
- HBRC uses the sales proceeds to acquire land or enters into partnership for the development of further open space areas, particularly those that are in environments that are of high ecological or landscape value or extensively used by the public.

HBRC's objective will be to indicate in either the LTP or relevant Annual Plan any proposals not covered by the above exceptions. There may be some occasions when the special consultative process for such initiatives may not always coincide with these HBRC planning processes and so may occur as standalone consultations.

6.4 Disposition of Income

Investment income other than that to be applied to reserve funds and in compliance with the provisions of Section 3(b) of the Endowment Act, will be included in the revenue account and used for the general purposes of HBRC.

6.5 Risk Assessment and Management

The risk profile of investment portfolio is continuously assessed to ensure adherence to the following risk management rules:

- HBRC will not invest where there is a significant known risk of decreased asset value, except where it has identified potential advantages to the Hawke's Bay economy in pursuit of its economic development objectives that may arise from making particular investments and has assessed whether potential economic gains could more than offset any potential decreases in asset value.
- For prudent management, while retaining a flexible approach to future investment opportunities, no more than 33% of HBRC's total investment portfolio will be invested in any one investment, or institution or groups of institutions in the same investment class, other than in institutions which are Government guaranteed (in which instance up to 100% of the portfolio may be invested). This rule does not apply to existing investments in PONL and Napier endowment property and the investment company established by HBRC.
- HBRC does not use financial derivatives to "hedge" against fluctuations in interest rates and equity indexes. In some instances HBRC matches foreign currency denominated purchases with forward exchange contracts to reduce the risk of exchange rates increasing the cost of its purchases.
- HBRIC and PONL (and subsidiary Council Controlled Organisations (CCTO's) yet to be formed) will from time to time use interest-rate swaps and forward exchange contracts to manage interest rate and currency risk, consistent with prudent treasury and risk management practices.
- HBRC has appointed an external professional investment adviser to provide an overall assessment of investment markets using its market intelligence and independent monitoring, and, specifically, to manage the funds invested in HBRC's Disaster Damage Reserve.

7. Investment Classes

HBRC will invest in the following investment classes.

7.1 Investment Instruments

Investment instruments include bonds, fixed interest securities and term deposits.

Investments made under this investment class are only made with:

- Any bank licensed by the Reserve Bank of New Zealand which has a minimum credit rating as issued by Standard & Poors (or other credit rating agencies of similar reputation) of:
  - "A" for short term debt (i.e. for up to 12 months)
  - "A for long term debt (i.e. for longer than 12 months).
- Any institution whose debt is issued by or guaranteed by the New Zealand Government.
- Local authorities, but excluding Council controlled organisations and Council controlled trading organisations.
- Any corporation, State Owned Enterprise or other legal entities which have minimum credit ratings for their short and long term debt as set by Standard & Poors (or other credit rating agencies of similar reputation) of:
  - "A" for short term debt (i.e. for up to 12 months)
  - "A+" for long term debt (i.e. for more than 12 months).

- Investments with any one institution at any time are limited to the greater of:
  - $5million, or
  - 40% of this investment class.

7.2 Investment Property

Investment property includes Napier endowment property and other unrestricted investment property assets. Where possible, HBRC will own property that supports achievement of its strategic development objectives.

7.3 Forestry

This includes physical assets including trees and land for forestry and forest development)

7.4 Equities

This excludes the Port of Napier, but includes shares in publicly listed New Zealand and International Companies held directly or through appointed investment managers, and other equity instruments such as New Zealand carbon units (or emission units). While returns from equity investment may vary over time, HBRC as a long-term investor, views capital appreciation and dividend and income growth in its equity holdings as more valuable to the regional community than dividend or income yield at any point in time, and will continue its investment in equities on this basis.

7.5 Equity Investments

Equity investments in HBRIC, PONL, CCTOs, and other subsidiary companies established in accordance with this policy, including those established by HBRIC.

7.6 Equity Investments: Joint Ventures

Equity investments in joint ventures with external partners.

7.7 Loans and Mortgages

This includes mortgages to buyers of the freehold of Napier endowment property.

7.8 Professionally Managed Portfolios

Professionally managed (external to HBRC) portfolios of investments of assets classes itemised in this Section 7, either by direct investment or through unit trusts.

7.9 Internal loans

Internal Loans for the development of infrastructure and property, plant and equipment assets.

8. Specific Investments

8.1 Investment Company

Since its establishment on 1 February 2012, HBRC beneficially owns 100% of the shares in HBRIC Ltd, a company established to manage HBRC's corporate investments.

HBRIC Ltd is classified as a strategic asset in terms of Section 97 of the Local Government Act 2002.

HBRC sets a series of performance and strategic targets for HBRIC Ltd in an annual Statement of Objectives, which in turn is reflected in the company's annual Statement of Intent (SOI). The 2015-16 performance targets as set out in HBRC's Statement of Objectives for HBRIC Ltd are outlined in the following tables.

Hawke's Bay Regional Investment Company Initial Performance Targets (subject to annual SOI review) HBRIC Ltd Parent 2015-16	
Performance Indicator	**Target**
Net debt to net debt plus Equity	<10%
Interest cover (EBIT/Interest paid)	>3x
EBITDA/Total Assets	3%
Return on Shareholder's Funds	3%

Hawke's Bay Regional Investment Company Initial Performance Targets (subject to annual SOI review) Consolidated 2015-16	
Performance Indicator	**Target**
Net debt to net debt plus Equity	<40%
Interest cover (EBIT/Interest paid)	>3x
EBITDA/Total Assets	8%
Return on Shareholder's Funds	5%

Notes:
EBIT = Earnings Before Interest and Tax
EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation

These performance targets may change from year to year as a result of HBRC's annual review of its Statement of Objectives and the company's Statement of Intent and changing economic, market and financial circumstances.

As controlling shareholder HBRC appoints the directors of HBRIC Ltd and, as controlling shareholder, HBRC will have an expectation that the company's policies will support its strategic objectives.

8.2 Port of Napier Limited (Napier Port)

As at 30 June 2012, HBRC beneficially owned 100% of the shares in Napier Port through HBRIC Ltd. These shares were valued in March 2012 at $177.4million. These shares, as part of the valuation being undertaken for HBRIC Ltd, will be revalued at 31 March 2015. HBRC's strategic objective is to continue to beneficially hold a majority of the shares of Napier Port as a key means of assisting economic development of the region. The investment is expected to be a significant source of non-rate revenue and has long term prospects for growth and development.

As controlling shareholder HBRC approves the appointment of the directors of Napier Port recommended by HBRIC Ltd.

8.3 Napier Leasehold Land

HBRC owns leasehold endowment property within and around Napier City. At 30 June 2011, its interest in the endowment property portfolio consisted of 398 properties independently valued at $45.50 million.

The portfolio was acquired in 1989 during the reformation of Local Government, and under the terms of each lease, the properties can only be sold to lessees. This means HBRC will retain ownership of each lease unless the lessor is willing to buy the freehold interest in the property at a value acceptable to both lessee and lessor. Sales of the freehold to lessors have occurred over the last three years, and the proceeds held for general purposes specified under the LTP in accordance with the provisions of the Endowment Act. HBRC has established specific terms and conditions under which lessees can freehold their properties.

HBRC intends to continue to sell freehold interests to lessors wherever an acceptable sale price can be achieved, and reserves the right to sell the annual cash flows arising from ongoing rents paid by lessors from time to time. With effect from 1 July 2013, HBRC sold the annual rentals due from this portfolio over the next 50 years (i.e. until July 2063) to ACC for a lump sum of $37.8 million. The underlying properties continue to be owned by HBRC and sales to lessors have continued, and may continue in the future, in the same way as they have done in the past. HBRC has invested these funds in investment classes specified in section 7 of this investment policy, and will continue to do so in respect of net proceeds, (after disbursements to ACC), of sales of freehold interests to lessors.

Ground rents paid by lessors have been predominantly set at 5% of land value and reviewed every 21 years. However from 2012, all rents have been reset annually at 5% of current land value, or "fair annual ground rental". Rent revenue received from the leases currently yields around 4% on the independently valued lessee's interest.

8.4 Investment Instruments (Bonds, fixed interest and short term deposits).

As at 30 June 2014, HBRC held $74.1million in bank term deposits and a further $2.8million in Government Stock.

These investments are derived from proceeds from the sale of Napier endowment property freeholds (held in this form until suitable alternative long-term investments become available for HBRC's approval), asset replacement provisions, disaster damage management and land drainage and flood control schemes together with HBRC's cash operating surpluses. A significant proportion of these assets are held as reserve funds of one sort or another, and need to be readily realisable to meet their particular purposes. HBRC also needs to maintain a working capital balance to ensure it can meet its obligations as and when they fall due. It is therefore important to maintain a continuing "cash reserve" in this form.

8.5 Other equities

HBRC holds New Zealand Shares and quasi equity instruments (such as convertible notes) listed on the New Zealand Stock Exchange, as well international shares (held in diversified global funds which may be investment trusts, investment companies or unitised funds) as a specific part of its Disaster Damage Reserve.

These assets amounted to $1million as at 30 June 2014, and are held to generate long term capital appreciation for the Reserve, while providing ready liquidity in order to meet any call on the Disaster Damage Reserve funds. Investments in equities for the reserve are limited to an overall maximum of 30% of the Disaster Damage Reserve, and further limited to:

- New Zealand shares - up to 10% of the Reserve
- International Shares - up to 22.5% of the Reserve.

8.6 Tangoio Soil Conservation Reserve

HBRC is responsible for the management of the Crown owned 550ha Tangoio Soil Conservation Reserves incorporating 325 ha of commercial forest plantings beneficially attributable to it and valued at $2.3million as at 30 June 2014. This investment will continue to be managed in terms of HBRC's undertakings for this purpose.

8.7 Investment Property

HBRC owns other leasehold property in the suburbs of Kelburn and Thorndon in Wellington, which are not subject to endowment restrictions. HBRC reserves the right to sell some or all of these properties and reinvest the proceeds in investment classes specified in Section 7 of this policy. These assets were independently valued at $11.9million as at 30 June 2014.

9 Investment Management Responsibilities and Delegations

Investment management responsibilities and powers to delegate are summarised in the following table.

Investment Policy Investment Management Responsibilities and Delegations	
Responsible Entity	**Responsibilities**
HBRC	1. Approve the Investment Policy and review it, at least every three years, as part of the Long Term Plan (LTP) process. 2. Monitor compliance with the Investment Policy through the receipt of periodic reports and briefings. 3. Approve investments (in the instances where funding is required from HBRC) in HBRIC, PONL and any Council Controlled Trading Organisations (CCTOs), other subsidiary companies or trusts, including authorisations of use of investment funds and the terms and conditions of investment for these purposes. 4. As controlling shareholder, vote for the appointment of directors in HBRIC, PONL and any CCTOs or other subsidiary companies established to manage HBRC's investments in future. 5. Approve new investments to facilitate community infrastructure asset creation, whether by way of direct property ownership or by making loans to non-HBRC entities for this purpose. 6. Approve investments made outside this policy. 7. Authorise the Chief Executive to manage and invest HBRC's cash reserves, surpluses, and available working capital balances, in investment instruments specified in Section 7 "Investment Classes" of this policy, up to the limit of total cash balances available to the HBRC from time to time, and in accordance with the requirements of this Investment Policy. 8. Grant delegated authority to act on all other investment issues.
HBRIC Ltd	1. Approve new investments or divestments, including any made by its current and any future subsidiary companies, joint ventures or other investment vehicles, except where the new investment or divestment: (a) Is inconsistent with delivery of HBRC's strategic objectives (b) Significantly varies performance targets agreed through respective Statements of Intent (c) Requires HBRC to assist funding these investments by increasing its equity in its subsidiary, associate, joint venture or other investment vehicle, or provide loans or other financial assistance to them (d) Involves divestment of a strategic asset as defined under Section 97 of the Local Government Act 2002.
Chief Executive	1. Ensure compliance with this policy through the appointment and accountability of appropriate staff. 2. Exercise delegated authority to make and implement investment decisions in accordance with authority delegated by HBRC. 3. Monitor investment conditions and performance and recommend initiatives and changes to HBRC as circumstances require. 4. Grant delegated authority to implement investment decisions to senior staff as appropriate.

10. Reporting

Investment mix and performance is reported to HBRC for all investments through the following means.

1. Reporting annually

- For all equities, (including HBRIC, PONL, CCTOs and other subsidiary companies, and New Zealand and international shares):
  - Dividends and other payments received
  - Sales and acquisitions; gains and losses on disposal (if any)
  - Changes in capital values of the assets (based on market or independent valuation)
  - Financial and operating results
  - Economic impacts (if any) generated during year.
- For all investment instruments, (bonds, term deposits, fixed interest investments, loans and mortgages):
  - Interest and other income received during the year
  - Repayments of loan principal
  - Gains and losses (if any) on disposal
  - Changes in capital values of the underlying assets (based on market or independent valuation).
- For property investments (including the Napier endowment property):
  - Movements in rental renewals
  - Sales and acquisitions of leases and property over the year
  - Any transfers of leasehold properties between lessees
  - Gains and losses on disposal (if any)
  - Net income and change in capital values of the underlying assets (based on market or independent valuation)
  - Economic impacts (if any) generated during the year.

2. Periodic Annual Plan progress reports which will show:

- Ongoing income returns from investments
- Sales and acquisitions of investments to date
- Gains and losses (if any) on disposal
- Indicative economic impacts (if any).

3. Individual issue papers submitted to HBRC dealing with matters of relevance (including changes in investment policy) to the investment portfolio that may arise during the year.

4. Additional requirements on HBRIC, PONL, CCTOs and other subsidiary companies reporting through HBRIC, including:

- Agreeing financial and other relevant strategic and performance targets for these businesses through an annual Statement of Intent
- Confirm appointment of directors having appropriate expertise to their boards
- Where requested, for HBRC's strategic planning purposes, review businesses strategic plans, annual budgets and financial forecasts for their medium and long term future operations
- Receiving 6 and 12 month reports on financial performance and position and operating results of these businesses
- Being briefed by the Chairperson of Directors and Chief Executive Officer of the businesses as required by the HBRC, but no less than twice a year
- Being consulted, and where necessary, making decisions as shareholders, at any time on new developments or significant departures from anticipated performance.

11. Review of Policy

This policy will be reviewed no less than every three years.

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 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 Councils' from borrowing or entering into incidental arrangements denominated in other than New Zealand currency.

General Policy

In accordance with the Act, and by resolution, Councils' may borrow on such terms and conditions that they consider appropriate.

Councils' may borrow for any of the following primary purposes:

- Funds for the acquisition of any assets expected to have a useful economic life of more than 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, Hawke's Bay Regional Council (HBRC) 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 its discretion
- 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

HBRC 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; being:

- 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 HBRC.

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

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

Debt Repayment

HBRC 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, HBRC will adhere to the following limits.

- Total interest expense on external public debt (including lease annuity) will not exceed 25% of total annual operating expenditure. In addition, HBRC loan funding will not exceed a debt to debt equity ratio of 28%.

Security

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

Internal Debt Management

When considered appropriate, HBRC 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.

The reserves established to cover the funding of replacement operating property, plant and equipment and renewal of flood and drainage scheme infrastructure are treated as one reserve balance for the purposes of providing funds for the purchase of new assets. Therefore for the most part loans are only raised from external funding sources when the total reserve balance is low.

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

Review of Policy

This policy will be reviewed no less than every 3 years.

Policies on Rates Remission and Postponement

Māori Freehold Land

Introduction

Māori 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 Māori 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 Māori 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 Māori 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 Māori Land Court, or other authorised agent of the owners of the land.
2. The application is to be made in writing before 30 days of the due date of payment. Applications made after this cut-off date will apply from the beginning of the following rating year. Hawke's Bay Regional Council (HBRC) will review the appropriateness of remissions on occasion.
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 Māori Land Court
   - Details supporting the applicant's 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. HBRC may grant a remission on Māori freehold land of up to 100% of all rates for the year to which the application applies, based on the following criteria.

   The land is in multiple ownership:
   - Where the level of gross income derived from the land is not sufficient to cover the cost of rates levied on that land
   - Where it is not possible to identify or locate the owners, or those liable to pay rates on the land
   - The support for the use of the land by the owners for traditional purposes
   - The support for the relationship of Māori and their culture and traditions with their ancestral lands
   - Recognition of the presence of sacred areas (waahi tapu) that may affect the use of the land for other purposes
   - 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 Māori freehold land are delegated to the Group Manager Corporate Services or the Chief Executive.

Review of Policy

This policy will be reviewed at least every 3 years 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, Hawke's Bay Regional Council (HBRC) 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 following.

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 HBRC's rating policy.

Conditions and criteria

1. HBRC 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 HBRC is no longer legally able to pursue the collection of rates.
5. All applications must be received in writing detailing the rating unit(s) involved and any other relevant information supporting the applicant's eligibility for the remission.
6. The application for a rates remission must be made before 7 days of the due date of payment.

Delegation

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

Review of Policy

This policy will be reviewed at least every 3 years, 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 HBRC 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, it may remit a penalty where:

1. It is demonstrated that the penalty has been levied because of an error by Council, or
2. It considers that it is fair and equitable to do so.

Matters that will be taken into consideration by Council under (1.) above include:

1. The ratepayer's payment history
2. 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 at least every 3 years 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 help 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. HBRC may, at its discretion, remit all or part of any rate assessed on any rating unit so affected by natural calamity.
3. HBRC 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. HBRC 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 at the least every 3 years, 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, Hawke's Bay Regional Council (HBRC) 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 continuity 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:

- Occupied by the same ratepayer (owner or person with right to occupy by virtue of lease for more than 12 months); and
- Used jointly as a single property (for the same purpose); and
- 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, HBRC will allow, without 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 continuity 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 affected, 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 before 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 at least every 3 years 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

- To assist ratepayers experiencing short term extreme financial hardship that affects their ability to pay rates.
- 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:

1. The applicant can illustrate a postponement of rates will help them overcome their short term extreme financial hardship
2. 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:

1. 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 at least every 3 years, to ensure that the conditions and criteria on which the policy is based, continue to be relevant and appropriate.

Revenue and Financing Policy

Introduction

This policy has been prepared in accordance with Sections 102 (2) (a) and 103 of the Local Government Act 2002. It identifies the funding sources and mechanisms that will be used to finance the Council's operating expenses and capital expenditure for the 10 years beginning 1 July 2015.

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 the Hawke's Bay Regional Council (HBRC) for the funding of operating and capital expenditure from the following sources.

- fees and charges
- general rates, including
  - choice of valuation system
  - differential rating
  - uniform annual general charges
- targeted rates
- investment income
- borrowing
- proceeds from asset sales
- development contributions
- financial contributions under the Resource Management Act 1991
- grants and subsidies
- any other source

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

1. In relation to each activity to be funded:
   - the community outcomes to which the activity primarily contributes
   - the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals
   - the period in or over which those benefits are expected to occur
   - the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity
   - the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities.
2. 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

To comply with statutory responsibilities and for operational management purposes, HBRC groups its functions in the Long Term Plan into separate groups of activities. The Council has eight 'groups of activities' which form the Long Term Plan and Annual Report processes.

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

Public/Private Split: 2 Step Process

HBRC undertakes a 2 step process when assessing the public/private split for the revenue and financing policy. An overview of this process is as follows.

Step 1

Allocation on economic principles.

- **Beneficiary pays:** An assessment to determine whether there are any private benefits to be recovered from identifiable users and if so, what this recovery should be.
- **Exacerbator pays:** An assessment to determine whether there are any private exacerbators and if so, what costs does this represent.
- **General benefits:** An assessment is made of the benefits that apply to the general community where every person in the region benefits equally from that activity.

This analysis is used to determine the recommended strict economic allocation for the funding of each activity.

Once an assessment is made as to the recommended strict economic allocation for the funding of each activity then the next part of the step is to determine whether Council's policies are effectively and appropriately promoted when this strict economic efficiency allocation is used. Modifications may be required to economic based funding where it is considered 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.

From the above analysis, Council's preferred allocation is derived.

Step 2

After an analysis of the funding tools available to HBRC for funding the public/private benefits identified consideration is then give to the following areas.

- **Costs and efficiencies of tools:** An assessment is made to determine whether the funding tools available represent an efficient combination to be used considering the administration costs to HBRC and compliance costs to ratepayers.
- **Intergenerational equity:** Assessment is made to determine whether the expenditure of this activity should be recovered at the time the benefits accrue. In most cases the benefits accrue immediately and hence are recovered during the year of expenditure.
- **Interests of ratepayers and residents:** Consideration of the ability to pay is undertaken.
- **Transitional impact:** An assessment is made to determine whether there would be any significant adjustment difficulties for ratepayers if the strict economic efficiency allocation were adopted.
- **Fairness and equity:** An assessment is made to determine whether the strict economic efficiency allocation would be fair and equitable.

From this analysis, given the funding tools available, the final recommendation to Council for each activity is then formulated.

Available Funding Sources

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

Fees and Charges

Subject to the provisions of a number of statutes, the 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 including:

- 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
- providing information on water science.

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

- The sole purpose of any charge is to recover the reasonable costs incurred by HBRC 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 the 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 its 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.

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 Basis:** 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 3 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:** HBRC 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. HBRC has always used land value (equalised) as its base for general rates, and has not adopted any differentials, for example for commercial property.
- **Uniform Annual General Charge (UAGC):** From 1 July 2004 HBRC introduced a 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.
- **Targeted Rates:** In addition to the general rate, HBRC 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).

  HBRC has used targeted rates to fund flood protection and drainage schemes, public transport, animal and plant pest control, civil defence emergency management, the heat smart assistance programme, and economic development. A combination of capital value, land value, area basis and Fixed Annual Charge have been used for these targeted rates. Detailed information of the rating for each scheme and its basis is set out in the funding impact statement included in this plan.

Investment Income

HBRC has a range of property, equity, and cash investments that provide a source of income not related to any specific function or activity. HBRC's investment assets are its 100% shareholding in the Hawke's Bay Regional Investment Company Limited (HBRIC Ltd); leasehold property investments in both Napier and Wellington; and reserve funds.

Investment income is principally applied to fund environmental programmes with an emphasis on natural resource management in the region.

Proceeds from Asset Sales

The proceeds from any property investment sales, with the exception of Napier leasehold properties, are credited to the Sale of Land Account. All the funds in this account, apart from $1 million per annum which, under Council's investment policy are available for use to fund capital projects within Hawke's Bay that have social, cultural or economic significance. These funds are initially invested in fixed deposits until suitable projects that meet the criteria of Council's 'Policy on the evaluation of investment opportunities' and comply with its general investment policies are identified.

Proceeds from the sales of Napier leasehold properties are paid to Accident Compensation Commission (ACC) under the Lease Receivables Purchase Agreement. This agreement covers HBRC's agreement with ACC for the capitalisation of Napier leasehold cash flows.

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

HBRC 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, flood and drainage schemes, and for emergencies and contingencies. HBRC has a reasonable level of reserves which help in the financial management of all activities. Consideration of the appropriate reserves and reserve levels is addressed as part of the Long Term Plan and Investment Policy.

Government Grants

The Government may provide funds to HBRC for specific purposes and projects across a range of functions on an ongoing basis. The New Zealand Transport Agency provides funding for subsidised passenger transport.

Capital Expenditure

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

Financing the purchase of fixed assets

For fixed assets including buildings, furniture and fittings, plant, equipment etc., it is HBRC 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 HBRC will either borrow, use other Council reserves, or other general funding revenue sources.

Financing of infrastructure assets

1. **Assets with 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 Councils Asset Management plan. No depreciation is provided on these assets.

   The infrastructure asset strategy provides for continuing yearly maintenance programmes to ensure the integrity of assets in this class.

   For significant new asset construction under this category, borrowed funds are used as Council's preferred method of financing. If sufficient accumulated funds are held in the Scheme operating reserve and/or the Scheme infrastructure depreciation reserve, then where provided for in the Asset Management plans for that Flood and Drainage Scheme, such new asset purchases can be directly funded from these accumulated reserves or those reserves be used to service a loan raised to fund such a purchase.

2. **Assets with a finite life**

   These assets include culverts, detention dams, pump stations, etc and are depreciated over their useful life. Depreciation is set at a rate that is consistent with the requirements of the Local Government Act 2002 sections 100-102, and as provided for in the adopted Asset Management Plan for each scheme. Such depreciation is placed in an infrastructure depreciation reserve for each Flood and Drainage Scheme.

   Renewal of these assets will, where it is considered appropriate, be funded from this depreciation reserve, any accumulated credit balances in the scheme operating account or through the use of loan funding as set out in the adopted Asset Management plan.

   Where (new) assets that will result in improved levels of service 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 adopted Asset Management plans provide for such new assets to be funded from accumulated infrastructure depreciated reserves and/or scheme operating balances for each flood drainage scheme.

Revenue and Financing Policy by 'Group of Activity'

The following pages outline funding considerations for each activity within the eight HBRC 'Groups of Activities'.

The two step process, as previously outlined in this policy, is used to ensure that the funding principles as required by the Local Government Act 2002 are adequately covered. This process results in HBRC 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 because the notes provide the reasoning applied to each funding split between public and private.

Revenue and Financing Policy Group of Activity: Strategic Planning								
Sub -Activity	**Further Analysis**	**Previous Policy** [c]		**Proposed Policy**		**Funding Tools**		**Notes**
		Public	Private	Public	Private	Public	Private	
Policy Implementation		100%	Nil	100%	Nil	Investment Income[b]	Nil	1
Strategy and Planning		100%	Nil	100%	Nil	Investment Income	Nil	1
Economic Development		Nil – 8%	92% - 100%	Nil	100%	Nil	Targeted Rate[f]	2
State of the Environment Reporting	State of the Environment Reporting	96% - 100%	Nil – 4%	82.5%	17.5%	Investment Income	Fees/Charges	3
	Research and Grants	100%	Nil	100%	Nil	Investment Income	Nil	4

a. General Funding Rates include General Rates on Land and Uniform Annual General Charges which will meet 100% of the public good funding needed.
b. Investment Income denotes Regional Investment Income which will meet 100% of the public good funding needed.
c. Previous Policy reflects the Policy that was adopted in the 2012-22 ten year plan as well as amendments passed through subsequent Annual Plans.
d. The cost of targeted rate collection is met directly from targeted ratepayers.
e. The notes to these tables provide the logic to support the funding splits between Public and Private.
f. Targeted Rate denotes the amount required from targeted rates net of any internal revenue contributions or other sundry income

Revenue and Financing Policy Group of Activity: Land Drainage and River Control								
Sub -Activity	**Further Analysis**	**Previous Policy [c]** Public	Private	**Proposed Policy** Public	Private	**Funding Tools** Public	Private	**Notes**
Heretaunga Plains Schemes	Drainage	10%	90%	10%	90%	Invest. Income [b]	Targeted Rate[f]	5
	Flood Control	30%	70%	30%	70%	Invest. Income	Targeted Rate	6
Upper Tukituki Scheme		17.5%	82.5%	17.5%	82.5%	Invest. Income	Targeted Rate	7
Other Schemes	Paeroa	12.5%	87.5%	12.5%	87.5%	Invest. Income	Targeted Rate	7
	Makara	10%	90%	10%	90%	Invest. Income	Targeted Rate	7
	Porangahau	10%	90%	10%	90%	Invest. Income	Targeted Rate	7
	Poukawa	5%	95%	5%	95%	Invest. Income	Targeted Rate	7
	Ohuia-Whakaki	5%	95%	5%	95%	Invest. Income	Targeted Rate	7
	Esk	12.5%	87.5%	12.5%	87.5%	Invest. Income	Targeted Rate	7
	Whirinaki	12.5%	87.5%	12.5%	87.5%	Invest. Income	Targeted Rate	7
	Wairoa	12.5%	87.5%	12.5%	87.5%	Invest. Income	Targeted Rate	7
	Te Awanga	10%	90%	10%	90%	Invest. Income	Targeted Rate	7
	Kopuawhara	10%	90%	10%	90%	Invest. Income	Targeted Rate	7
	Opoho	10%	90%	10%	90%	Invest. Income	Targeted Rate	7
	Kairakau	10%	90%	10%	90%	Invest. Income	Targeted Rate	7
	Te Ngarue	10%	90%	10%	90%	Invest. Income	Targeted Rate	7
	Central & Southern	12.5%	87.5%	12.5%	87.5%	Invest. Income	Targeted Rate	7
Investigations & Enquiries	Investigations and Enquiries	100%	Nil	100%	Nil	Invest. Income	Nil	8
	Subsidised Work	30%	70%	30%	70%	Invest. Income	Fees/Charges	9
	Consultancy Services	Nil	100%	Nil	100%	Nil	Fees/Charges	10
Sundry Works	River Openings	100%	Nil	100%	Nil	Invest. Income	Nil	11
	Westshore	50%	50%	50%	50%	Invest. Income	Contribution from Napier City Council	12

a. General Funding Rates include General Rates on Land and Uniform Annual General Charges which will meet 100% of the public good funding needed.
b. Invest. Income denotes Regional Investment Income which will meet 100% of the public good funding needed.
c. Previous Policy reflects the Policy that was adopted in the 2012-22 ten year plan as well as amendments passed through subsequent Annual Plans.
d. The cost of targeted rate collection is met directly from targeted ratepayers.
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f. Targeted Rate denotes the amount required from targeted rates net of any internal revenue contributions or other sundry income

Revenue and Financing Policy Group of Activity: Regional Resources								
Sub -Activity	**Further Analysis**	**Previous Policy [c]**		**Proposed Policy**		**Funding Tools**		**Notes**
		Public	Private	Public	Private	Public	Private	
Land Management	Sustainable Land Management	100%	Nil	75%	25%	Invest. Income [b]	Targeted Rate[f]	13
	Land Monitoring	70%	30%	75%-100%	Nil-25%	Invest. Income	Targeted Rate	14
	Land Research & Investigations	65%	35%	65%	35%	Invest. Income	Targeted Rate & Fees/Charges	12
	Soil Conservation Nursery	Nil	100%	Nil	100%	Nil	Fees/Charges	16
Air Management	Air Quality	100%	Nil	100%	Nil	Invest. Income	Nil	17
	Healthy Homes Initiative	Nil	100%	Nil	100%	Nil	Targeted Rate & Fees/Charges	18
Water Management	Water Science	65%	35%	65%	35%	Invest. Income	Fees/Charges	19
	Water Information Services	Nil	100%	Nil	100%	Nil	Fees/Charges	20
	Water Demand	100%	Nil	100%	Nil	Invest. Income	Nil	21
Coastal Management		100%	Nil	100%	Nil	Invest. Income	Nil	22
Gravel Management	Gravel Management	Nil	100%	Nil	100%	Nil	Fees/Charges	23
	River Cross Sections	43%	57%	43%	57%	Invest. Income	Fees/Charges	24
Open Spaces	Wetlands - Waitangi, Tukituki & Muddy Creek	30%	70%	30%	70%	Invest. Income	Differential Rate	25
	Wetlands – Pekapeka	90%	10%	90%	10%	Invest. Income	Differential Rate	26
	Lake Tutira Country Park	87%-90%	10%-13%	87%-90%	10%-13%	Invest. Income	Fees/Charges	27
	Public Access to Rivers	65%-75%	25%-35%	65%-75%	25%-35%	Invest. Income	Targeted Rate & Fees/Charges	28

a. General Funding Rates include General Rates on Land and Uniform Annual General Charges which will meet 100% of the public good funding needed.
b. Invest. Income denotes Regional Investment Income which will meet 100% of the public good funding needed.
c. Previous Policy reflects the Policy that was adopted in the 2012-22 ten year plan as well as amendments passed through subsequent Annual Plans.
d. The cost of targeted rate collection is met directly from targeted ratepayers.
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f. Targeted Rate denotes the amount required from targeted rates net of any internal revenue contributions or other sundry income

Revenue and Financing Policy Group of Activity: Regulation								
Sub -Activity	**Further Analysis**	**Previous Policy** [c]		**Proposed Policy**		**Funding Tools**		**Notes**
		Public	Private	Public	Private	Public	Private	
Resource Consent Processing		40%	60%	40%	60%	Invest. Income [b]	Fees/Charges	29
Compliance Monitoring	Compliance Programmes	30%	70%	30%	70%	General Funding Rates [a])	Fees/Charges	30
	Environmental Incident Response	100%	Nil	100%	Nil	General Funding Rates	Nil	31
Maritime Safety and Navigation		100%	Nil	100%	Nil	General Funding Rates	Nil	32
Building Act Implementation		100%	Nil	100%	Nil	Invest. Income	Nil	33

a. General Funding Rates include General Rates on Land and Uniform Annual General Charges which will meet 100% of the public good funding needed.
b. Invest. Income denotes Regional Investment Income which will meet 100% of the public good funding needed.
c. Previous Policy reflects the Policy that was adopted in the 2012-22 ten year plan as well as amendments passed through subsequent Annual Plans.
d. The cost of targeted rate collection is met directly from targeted ratepayers.
e. The notes to these tables provide the logic to support the funding splits between Public and Private.
f. Targeted Rate denotes the amount required from targeted rates net of any internal revenue contributions or other sundry income

Revenue and Financing Policy Group of Activity: Biosecurity								
Sub -Activity	**Further Analysis**	**Previous Policy** (c)		**Proposed Policy**		**Funding Tools**		**Notes**
		Public	Private	Public	Private	Public	Private	
Animal Pest Control	Rabbit Control	30%	70%	30%	70%	Invest. Income (b)	Targeted Rate(f)	34
	Possum Control	30%	70%	30%	70%	Invest. Income	Targeted Rate	35
	Rook Control	30%	70%	30%	70%	Invest. Income	Targeted Rate	36
	Research	30%	70%	30%	70%	Invest. Income	Targeted Rate	37
	General Advice	30%	70%	30%	70%	Invest. Income	Targeted Rate	37
Plant Pest Control	Incentive Scheme	100%	Nil	100%	Nil	Invest. Income	Nil	38
	Inspections and Service Delivery	40%	60%	40%	60%	Invest. Income	Targeted Rate	39
	Monitoring and Surveillance	40%	60%	40%	60%	Invest. Income	Targeted Rate	39
	Biological Control	40%	60%	40%	60%	Invest. Income	Targeted Rate	40
Bovine Tb Regional Vector Control Programme	Vector Management	3%	97%	N/A	N/A	N/A	N/A	41
	Bovine TB Vector Control	30%	70%	Nil	100%	Nil	Reserves	41
	Bovine TB National Costs	30%	70%	Nil	100%	Nil	Reserves	41
	Administration	Nil	100%	Nil	100%	Nil	Reserves	41
Pest Management Strategies		100%	Nil	100%	Nil	Invest. Income	Nil	42

a. General Funding Rates include General Rates on Land and Uniform Annual General Charges which will meet 100% of the public good funding needed.
b. Invest. Income denotes Regional Investment Income which will meet 100% of the public good funding needed.
c. Previous Policy reflects the Policy that was adopted in the 2012-22 ten year plan as well as amendments passed through subsequent Annual Plans.
d. The cost of targeted rate collection is met directly from targeted ratepayers.
e. The notes to these tables provide the logic to support the funding splits between Public and Private.
f. Targeted Rate denotes the amount required from targeted rates net of any internal revenue contributions or other sundry income

Revenue and Financing Policy Group of Activity: Emergency Management								
Sub -Activity	**Further Analysis**	**Previous Policy** [c]		**Proposed Policy**		**Funding Tools**		**Notes**
		Public	Private	Public	Private	Public	Private	
Hazard Assessment and Response	Response Management	100%	Nil	100%	Nil	Invest Income [b]	Nil	43
	Flood Risk Assessment	100%	Nil	100%	Nil	Invest Income	Nil	43
	Flood Warning System	75%	25%	67%	33%	Invest. Income	Targeted Rate[f]	44
	Oil Spill Response	Nil	100%	Nil	100%	Nil	Govt. Grants	45
HB Civil Defence Emergency Management Group	Reduction – Hazard Identification and Mitigation	Nil	100%	Nil	100%	Nil	Targeted Rate	46
	Readiness and Response	Nil	100%	Nil	100%	Nil	Differential Rate/Local & Government Grants	46
	Recovery and Co-ordination	Nil	100%	Nil	100%	Nil	Differential Rate/Local & Government Grants	46

a. General Funding Rates include General Rates on Land and Uniform Annual General Charges which will meet 100% of the public good funding needed.
b. Invest. Income denotes Regional Investment Income which will meet 100% of the public good funding needed.
c. Previous Policy reflects the Policy that was adopted in the 2012-22 ten year plan as well as amendments passed through subsequent Annual Plans.
d. The cost of targeted rate collection is met directly from targeted ratepayers.
e. The notes to these tables provide the logic to support the funding splits between Public and Private.
f. Targeted Rate denotes the amount required from targeted rates net of any internal revenue contributions or other sundry income

Revenue and Financing Policy Group of Activity: Transport								
Sub -Activity	**Further Analysis**	**Previous Policy** [c] Public	 Private	**Proposed Policy** Public	 Private	**Funding Tools** Public	 Private	**Notes**
Regional Road Safety		5%	95%	15%	85%	Invest. Income [b]	Govt. Grants and Territorial Authority Grants	47
Regional Land Transport Strategy		Nil-28%	72% - 100%	47%-49%	51%-53%	Invest. Income	Govt. Grants	48
Subsidised Passenger Transport		Nil	100%	Nil	100%	Nil	Govt. Grants/Differential Rate & Fees/Charges	49

a. General Funding Rates include General Rates on Land and Uniform Annual General Charges which will meet 100% of the public good funding needed.
b. Invest. Income denotes Regional Investment Income which will meet 100% of the public good funding needed.
c. Previous Policy reflects the Policy that was adopted in the 2012-22 ten year plan as well as amendments passed through subsequent Annual Plans.
d. The cost of targeted rate collection is met directly from targeted ratepayers.
e. The notes to these tables provide the logic to support the funding splits between Public and Private.
f. Targeted Rate denotes the amount required from targeted rates net of any internal revenue contributions or other sundry income

Revenue and Financing Policy Group of Activity: Governance and Community Engagement								
Sub -Activity	**Further Analysis**	**Previous Policy [d]**		**Proposed Policy**		**Funding Tools**		**Notes**
		Public	Private	Public	Private	Public	Private	
Community Partnerships		100%	Nil	100%	Nil	Invest. Income [b]	Nil	50
Community Engagement and Communications		92%-93%	7%-8%	92%-93%	7%-8%	Invest. Income	Territorial Authority Grants	51
Response to Climate Change	Response to Climate Change	100%	Nil	100%	Nil	General Funding Rates [a]	Nil	52
	Solar Saver Scheme Administration	100%	Nil	100%	Nil	General Funding Rates	Nil	53
Community Representation and Regional Leadership		100%	Nil	100%	Nil	General Funding Rates	Nil	54
Investment Company Support		Nil	100%	Nil	100%	Nil	Fees/Charges	55

a. General Funding Rates include General Rates on Land and Uniform Annual General Charges which will meet 100% of the public good funding needed.
b. Invest. Income denotes Regional Investment Income which will meet 100% of the public good funding needed.
c. Previous Policy reflects the Policy that was adopted in the 2012-22 ten year plan as well as amendments passed through subsequent Annual Plans.
d. The cost of targeted rate collection is met directly from targeted ratepayers.
e. The notes to these tables provide the logic to support the funding splits between Public and Private.
f. Targeted Rate denotes the amount required from targeted rates net of any internal revenue contributions or other sundry income

Notes: Revenue and Financing Policy

1. When allocating the benefits between public and private in Step 1 (as previously outlined in the Revenue and Financing Policy page 2) it was determined that part of the work required on this activity was a result of the action of users/exacerbators, with this being classified as a private benefit. However, it is either impractical, not possible, or inefficient to charge these users/exacerbators with current legislation not allowing a provision for fees to be levied on the resource users and exacerbators as a result of using resources in accordance with a permitted activity rule. Consequently HBRC is to treat these costs as a public cost and fund them through the use of regional investment income.
2. The development of strategies that promote economic development for the region may provide a greater and more immediate benefit to the broader business community. The objective of this project is to fully fund Economic Development activity throughout the region through the use of an Economic Development Rate across the region. The basis of the rating is that 30% of the total Economic Development rate is to be funded by the commercial or industrial properties and based on capital value. The remaining 70% is to be collected from residential and rural properties as a Fixed Annual Charge. Wairoa District ratepayers' contribution is to be limited to 5% of the total Economic Development rate.
3. The Step 1 analysis has revealed that there is a private benefit to consent holders from State of the Environment monitoring. Monitoring of state and trends in our natural resources is important to demonstrate that policy is effective in managing consented activities within limits. This demonstration allows the continued access to those resources. The assessment has revealed that half of the work in this area relates to work which attracts Zone Based Water Science Charges, therefore half of the potential 35%, being 17.5%, of this activity is deemed to be a private benefit and will be recovered through the charging of fees directly to the consent holder under s36 of the Resource Management Act.
4. This activity relates to the undertaking of specific one off research projects on environmental issues in order to meet scientific, regulatory or policy needs. Where the work undertaken is associated to recoverable projects, such as zone based water science charges, HBRC will endeavour to recover a share of these costs. As this is not considered a certain enough source of income to be used in the funding policy, all of this activity is treated as a public good and funded through the use of regional investment income.
5. An analysis of the Heretaunga Plains Drainage Scheme has identified a 90% private benefit to those ratepayers directly benefiting from the scheme. The indirect benefits of increased productivity of the Heretaunga Plains land to the whole region, as a result of increased economic activity resulting from the productivity, are recognised in the allocation of 10% of the costs to the region as a whole which is funded through the use of regional investment income. The 90% private benefit is funded through a targeted rate based on capital value.
6. An analysis of the Heretaunga Plains Flood Control Scheme has identified a 70% direct benefit to the landowners within the Hastings District and Napier City Council areas. Of this, 49% results in a direct benefit to properties protected from frequent flooding and/or river coarse changes, and 21% being the indirect benefit as a result of increased opportunity arising from higher population and increased choice and competition among service industries, and improved opportunities for employment, investment and recreation. The 70% private benefit is funded through a targeted rate based on capital value, with the remaining 30% public benefit funded through the use of investment income.
7. An assessment of the public and private benefits undertaken as part of the Step 1 analysis has provided for a public contribution to be made to each of the other schemes which HBRC administers according to the following principles.
   - A scheme which provides protection to a State Highway will receive a public contribution of 12.5%.
   - A scheme which provides protection to a local roading network will receive a public contribution of 10%.
   - A scheme which provides protection only to private land will receive a public contribution of 5%.

- The Upper Tukituki Scheme will receive an additional 5% public contribution because of the additional cost which arises from gravel flows from the upper catchment land.

The balance, being the private benefit, is to be funded through targeted rates which are based on a mix of land value, capital value, and Fixed Annual Charge.

8. The provisions of HBRC internal staff time to respond to public enquires and provide expert advice on Land Drainage and River Control activities is considered a public benefit and funded 100% by regional investment income.

9. Subsidised work including small flood control and stream improvement works undertaken on private land, but which benefit a wider community, receives a public contribution of 30% and is funded through the use of regional investment income. The 70% private benefit is recovered through the charging of fees to the requesting landowner(s).

10. This activity relates to the provision of consultancy services by HBRC engineering staff for drainage, flooding, and coastal erosion issues according to individual project agreements. The costs of these services are met directly by the beneficiary through the charging of fees.

11. The Step 1 analysis has identified a 30% private benefit for this activity recognising that the main beneficiaries from the work are the owners of land and/or utilities in the areas immediately around the river mouths. However, the costs associated with the opening of river mouths are relatively small and the cost of establishing a funding mechanism to recover the private good portion of the cost could not be justified, therefore this work is treated as a public good and funded through the use of regional investment income.

12. The final policy of 50% public / 50% private reflects the fact that HBRC is unable to allocate costs in accordance with its preference of Westshore renourishment because there remains uncertainty with regard to the impact of Port of Napier Limited structures on rates of erosion, and there are no legal means of identifying and collecting income from exacerbators. Consequently the use of regional investment income will meet the public benefit share of these costs. The private benefit costs are met by the Napier City Council.

13. For Sustainable Land Management the Step 1 strict economic analysis indicates that there is a 50% public benefit and 50% private benefit element for HBRC's Sustainable Land Management activities. The private benefit reflects the level of private landowner and wider sector benefit that is derived through Council providing advisory and financial services to assist them in meeting Plan Change 6 requirements, in particular the benefit derived in meeting Farm Environmental Management Plans and other Plan Change 6 requirements where they would otherwise require resource consent to continue their rural operations. While recognising this private benefit, HBRC believes that a significant public benefit can also be applied to reflect the high regional priority on water quantity and quality, the positive regional flow-on benefits of significantly improved water management, the public good nature of a number of proposed HBRC Plan Change 6 services and the difficulty in applying the exacerbator pays factor. However, taking into account additional important considerations such as the requirement for the Council to respond to the Government's National Policy Statement on Freshwater Management, the major new resource management approach for the Council which Plan Change 6 represents, and transition costs, HBRC believes a 25% private benefit strikes a fair balance between HBRC's current benefit allocation for Sustainable Land Management and the result of the strict economic analysis. The 25% private benefit is to be funded by way of a targeted rate on those properties in the region over 4ha, with the 75% public funding being met by regional investment income.

14. Council determined through Step 1, that there is a significant private good resulting from these activities which is assessed at 25%. This private benefit reflects that users benefit from Land Monitoring as it enables HBRC to identify and monitor the impacts of land use intensification on soil and water quality throughout the region. Given that this project relates directly to work undertaken as part of the Sustainable Land Management activity, and that Council has agreed to initiate a regional charge for Sustainable Land Management activities (see note 13), the 25% private benefit is to be funded as part of the targeted rate on those properties in the region over 4ha. Part of the private good element of this activity was previously funded through the charging of fees directly to the consent holder under s36 of the Resource Management Act. To minimise the impact on rural ratepayers of the change in the private good funding mechanism, the 25% targeted rate will be gradually introduced over 3 years with no direct targeted rate charged to rural ratepayers in Year 1 of the Plan, 12.5% in Year 2, and the full 25% targeted rate commencing in Year 3 of the Plan.

15. Land Research & Investigations are integral to the Sustainable Land Management Programme. The private benefit for this activity has been assessed at 35% which under previous policy was recovered through s36 zone based water science charging where the work is related to water quality outcomes. As there is a significant proportion of the work that directly relates to the Sustainable Land Management activity it is proposed that the 35% private benefit be split between the s36 charging regime for zone based water science charges (17.5%) and the regional targeted rate for Sustainable Land Management (17.5%).

16. The HBRC Soil Conservation Nursery operation has been established to provide for the regional community a consistent supply of quality poplar and willow poles for erosion control use in Hawke's Bay. This operation is set at a break even position and assessed as a private benefit because the cost of the purchase and production of poles is offset by the sale of poles to users.

17. 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 users/exacerbators, with this being classified as a private benefit. However, the ability to charge fees for exacerbators is not legally possible because HBRC can currently only charge Resource Consent holders. It is also not practical to charge exacerbators through a targeted rate because it is impossible, for example, to practically isolate the impact of specific things such as ambient air quality on geographic areas. Consequently HBRC is to treat this as a public cost and fund it through the use of regional investment income.

18. Air quality in the Napier and Hastings areas does not currently meet the standard that the Government requires. The aim of this initiative is to reduce particles of polluting smoke in the affected airsheds by replacing open fires or wood burners with more efficient forms of heating. This activity is classified as a private benefit and is funded by way of a targeted rate based on land value for those in the Napier and Hastings airsheds, and by the charging of fees for those who take up the offer of Council assistance.

19. HBRC determined through Step 1, that there is a significant private good that results from these activities which is assessed at 35%. This private benefit reflects that users benefit from our knowledge and understanding of the region's water resources as it facilitates the expeditious processing of the consent applications and enables Council to manage the resources in an efficient and sustainable fashion. The 35% private benefit is funded through the charging of fees directly to the consent holder under s36 of the Resource Management Act.

20. The Water Information Services activity provides infrastructure and services to support the collection and management of water use data and has been established following the introduction of legislative requirements. This activity has been assessed as a 100% private benefit on the basis that water consent holders directly benefit from water metering data. Costs for this activity are recovered from these consent holders through fees and charges.

21. For Water Demand Management, the Step 1 analysis indicated that the private good charge should be in the region of 30% of the total project costs. This reflects the potential benefit that could be derived by water consent holders/water users. However, because water demand management projects are new initiatives, HBRC is unsure if they are going to work, proceed or be successful. It is therefore impractical and unfair to charge 30% to potential beneficiaries. Consequently the costs are to be treated as a public good and be funded through the use of regional investment income.

22. Step 1 of the analysis indicated that there is a significant private good element in the coastal management work that Council undertakes. This assessment has been provided on the basis that the information from monitoring the coastal environment makes processing of resource consent applications easier, and some of the monitoring requirement results from the action of exacerbators. Council recognises that it is currently not practical to attribute a charge to resource consent holders or legal to charge the exacerbators, therefore all these costs have been treated as a public good and funded through the use of regional investment income.

23. The Gravel Management activity is established to administer the allocation and extraction of river bed gravel in accordance with the Regional Resources Management Plan and in the best interest of river management. The private benefit element of this activity has been assessed at 100% with resource management charges paid directly by the consent holder, under s36 of the Resource Management Act, based on the level of gravel extracted.

24. Cross section costs are based on economic principles and recognise the general community benefit (43%) that arises from cross section work. This work provides data that is used for State of the Environment monitoring, and is also used for flood prediction management and assessment and is funded through the use of regional investment income. Private good funding (57%) arises from use of the data for monitoring gravel extraction activities and monitoring performance of the Upper Tukituki, Heretaunga Plains, and Esk Schemes and is funded by way of fees and charges.

25. Some of the Council's wetlands are located on land owned or managed by the Heretaunga Plains Flood Control Scheme and are therefore considered an integral part of the scheme. A considerable amount of work has been done to determine the public/private split with respect to this scheme which is currently determined as 70% private, 30% public (refer to note 6).

26. The land owners in the Karamu Drainage catchment of the Heretaunga Flood Plains Scheme receive indirect benefits from the water retention capabilities of the Pekapeka wetlands. These indirect benefits are assessed as representing 10% of the cost of the scheme and funded directly by these beneficiaries through the use of a targeted rate based on capital value. The 90% public benefit is funded through the use of regional investment income.

27. The Lake Tutira Country Park facilities are considered a public resource which all ratepayers have access to and can benefit from. This activity is funded 87%-90% from public funding through regional investment income and 10%-13% from private funding through the charging of camp fees, rental from Council forestry assets and through grazing fees.

28. Council's analysis indicates that public access to rivers has many characteristics of both a public and a private good. The public good portion element of this activity is funded through the use of regional investment income, and the private good element funded through the charging of a targeted rate as well as through fees and charges in relation to white bait stands.

29. HBRC determined through the Step 1 analysis that 60% of the work relating to the processing and administering of resource consents conferred a private benefit and would be recovered through fees and charges directly to the consent holder. It is considered that charging for general advice would be contrary to its policy of encouraging the public to enquire as to what consents are required before resource use is initiated so the provision of general advice is treated as a public good and is funded through the use of regional investment income.

30. For Compliance Monitoring the Step 1 analysis indicated that the private/public good charge should be split private (70%) and public (30%). An analysis of staff time indicates that 70% of time is spent checking compliance with consent conditions and is to be recovered through the charging of fees directly to users, with 30% spent on provisional information and advice, investigations, liaising with industry and external organisations and in-house deliberations over monitoring and enforcement strategies. The provision of general advice is treated as a public good and funded through general funding rates.

31. For Environmental Incident Response the Step 1 analysis indicated that most of the work should be treated as a private good because it was a consequence of the actions of individuals or organisations. However, it is not possible, other than through legal action, to recover any part of these costs. HBRC will initiate appropriate legal action, but because 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 and funded through general funding rates.

32. The private benefit of this activity is estimated to be 75% which relates to costs incurred in managing navigation safety (70%) and identifiable exacerbators (5%). Current funding tools available will not allow HBRC to allocate costs in accordance with its preference. Recoveries could be made through legal action; however, this is not a certain enough source of income to use in the funding policy. Consequently the 75% private good element is funded as public cost through general funding rates.

33. It is estimated that 95% of the costs arising from this activity cover the responsibilities to hold and provide information and develop audit systems, these costs not being recoverable from consent applicants and holders. Other than the occasional issuance of Project Information Memorandums and the imposition of a fine for non compliance there is limited income to be earned. Because this is not considered a certain enough source of income to be used in the funding policy, it is Council's preference to treat 100% of the activity as a public good and funded through the use of regional investment income.

34. 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 publically funded through the use of regional investment income. The 70% private benefit is funded through a differential targeted rate on all rural properties greater than 4ha.

35. HBRC's Possum Control programme, involving Council's subsidy of animal pest control products and the protection of possum control area boundaries, has spin off benefits for the environment, biodiversity, public health and the regional economy. This is assessed at 30% of the cost of the work and is funded from regional investment income. The private portion of this activity is assessed as 70% because owners of productive land benefit directly from low pest densities and increased productivity and are therefore charged through a differential targeted rate on all rural properties greater than 4ha.

36. Rook control is largely a private good; however, rooks cover a significant range and the exacerbator is unlikely to be the beneficiary of any control work undertaken. With significantly reduced rook numbers the reduced public benefit of ongoing work is recognised by aligning the funding with Council's possum control programme which is assessed as 70% private through the charging of a differential targeted rate, and 30% public which is funded through the use of regional investment income.

37. HBRC animal pest control research and general advice plays an integral part in seeking ways for the animal pest control programme to be more efficient and cost effective. The 70% private and 30% public benefits reflect a funding policy consistent with the rest of the animal pest control programme.

38. The private contribution of 50% (up to a maximum of $3,000 each application) of the costs of total control of Plant Pests (occupier responsibility) specified in the Regional Pest Management Plan does not appear in HBRC financial statements.

39. The Regional Pest Management Plan sets out the funding arrangements on the basis of benefit. The assessment of benefit is as follows: Rural land occupiers 60%; occupiers of properties less than 4ha 20%; the regional community 20%. HBRC considers it inefficient to levy a differential targeted rate on properties less than 4ha and therefore treats this portion as a public cost and funds it through the use of regional investment income. The 60% private benefit is charged as a targeted rate to all ratepayers with properties over 4ha in the region. It is noted that the Regional Pest Management Plan is programmed to be reviewed in the 2015-16 and 2016-17 financial years. This review may result in some changes to this funding formula.

40. Plant pest biological control has benefits to the overall region of animal and human health; the environment; and the region's economy. The private benefit is assessed at 60% since individual occupiers directly benefit from the biological control agent on their property and funded through the use of a targeted rate.

41. The Vector Management project ceased two years ago.

Operational Solutions for Primary Industries New Zealand (OSPRI), the organisation responsible for the Bovine Tb Vector Control programme in Hawke's Bay has reviewed its funding model and the outcome is that from 2016/17 HBRC will not be committed to fund this programme. As sufficient funds are held in the TB Vector and Animal Pest scheme reserves to cover the level of funding required in 2015/16, rating for the Bovine TB Regional Vector Programme will cease effective 30 June 2015.

42. Pest management strategies and plans cover the whole of the Hawke's Bay region and cover a wide range of pests. It is not possible to target a particular beneficiary from any one particular strategy and plan and therefore HBRC policy is for this activity to be 100% publically funded through the use of regional investment income.

43. There is a region wide benefit from being able to plan for emergencies by identifying and quantifying potential hazards which is funded as a public cost through the use of regional investment income.

44. There is a region wide benefit from being able to predict and respond to floods as they occur and also a direct benefit to the ratepayers of flood and drainage schemes. The information gathered from the flood warning system is used to predict flooding events and to input into design work associated with the flood control and drainage schemes. The public benefit has been assessed at 67% and funded through the use of regional investment income with the private benefit of 33% funded through a targeted rate on those ratepayers within the flood and drainage schemes.

45. Marine oil spills are caused by the actions or inactions of vessels or port operations. The costs are met by the exacerbators either through Maritime New Zealand or directly by the spiller and are therefore assessed as a 100% private benefit.

46. The Hawke's Bay Civil Defence Emergency Management Group (CDEMG) is responsible for providing effective Civil Defence Emergency Management within its area consistent with the Civil Defence Emergency Management Act 2002. The CDEMG consists of the Wairoa District Council, Hastings District Council, Napier City Council, Central Hawke's Bay District Council and the Hawke's Bay Regional Council. The Hawke's Bay CDEMG area is reflective of the boundaries of the member TLA Councils. The Hawke's Bay Regional Council is the administrating authority for the CDEMG. The CDEMG has established a Group Office to manage the day to day functions of Civil Defence Emergency Management. The benefits of the work of the Group Office are spread across the member Councils and their communities. This programme is funded through a separate targeted rate which has been set as a Fixed Annual Charge for properties within the CDEMG area.

47. This activity is directed at promoting Road Safety education in partnership with Regional Stakeholders by the promotion of campaigns. These campaigns increase awareness and lessen the risks associated with road transport. HBRC provides 15% of the total Regional Road Safety funding. The remaining funding stems from contractual agreements with the New Zealand Transport Agency (51% - 53%) with the balance provided by the Hawke's Bay Local Territorial Authorities and other Government Agencies. The 15% of funding provided by HBRC is considered to be a public benefit as all members of the regional community benefit from this activity, and is funded through the use of regional investment income.

48. The benefits of this activity is the development of an integrated approach to transport to meet economic, social and safety needs of the public. The New Zealand Land Transport Agency makes an annual financial contribution (51% - 53%) towards the costs of undertaking this activity, with this contribution treated as a form of private user subsidy. The remaining 47% - 49% is treated as a public benefit and funded through the use of regional investment income.

49. The current private benefit allocation at 100% includes the amount to be raised through the subsidised public transport targeted rates, the amount paid directly by private beneficiaries in the way of fares, and the New Zealand Transport Agency grant. The private contribution for the overall cost of subsidised public transport, which is raised through user charges, does not appear in the Council's financial statements as this amount is collected and retained by the bus operator and is offset against Council's payment for running the bus service. Over the last few years fare patronage has increased substantially with this rate of strengthening forecast to slow and level off throughout the 10 years of this plan. Any additional funding received by way of fare patronage may be reinvested to enhance the provision of the bus services.

50. It is considered that from a strict economic point of view set out in the Step 1 analysis that the private benefit of 20% reflects the fact that specific individuals will benefit by virtue of using outputs of the research or strategic alliances. 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 funded as a public cost through the use of regional investment income.

51. HBRC considers that the main objective of engagement and communications activities is to widely inform and assist decision making across the scope of HBRC's work. It is considered a disincentive to charge beneficiaries for information promoting behaviour change which in many cases also requires significant ratepayer investment. Public benefits are recovered through the use of regional investment income, after Territorial Authority grants are deducted.

52. HBRC's objective for this activity is to set a positive example that encourages other businesses in the region to support sustainable business practices. The public benefit is assessed at 100% because this will encourage the whole community to consider climate change issues as part of their business decisions and everyday life. This activity is funded through general funding rates.

53. The Hawke's Bay Solar Saver scheme is an opportunity to achieve energy efficiencies using a natural renewable resource available in abundance in Hawke's Bay and to reduce community dependence on other forms of energy. It is proposed that HBRC administers and funds the scheme with the Hastings and Napier District Councils carrying out their normal regulatory roles, with the funding of the scheme anticipated to be cost neutral. Where there will be a cost to HBRC will be through a very small amount of internal staff time for administering the scheme which is to be publically funded through general funding rates.

54. This function relates to the costs of elected political representation (including Iwi representatives) as well as the costs of reporting to the community, and is assessed 100% as a public benefit and met by general funding rates.

55. This function relates to the activities of the Hawke's Bay Regional Investment Company Limited (HBRIC Ltd) which is administered through the Council. This activity is assessed as a 100% private benefit and will be funded by HBRIC Ltd through the recovery of time and costs incurred by Council on behalf of HBRIC Ltd.

Significance and Engagement Policy

Purpose and Scope

Hawke's Bay Regional Council (HBRC, Council or 'we') has developed this policy to:

1. Enable Council and our communities to identify the degree of significance attached to particular issues, proposals, assets, decisions and activities
2. Provide clarity about how and when communities can expect to be engaged in decisions made by Council
3. Inform Council from the beginning of a decision-making process about the extent, form and type of engagement required.

The Local Government Act 2002 (the Act) has consultation principles to guide HBRC when making decisions. With this in mind, HBRC commits to:

- Identify and assess options
- Place a value on benefits and costs
- Consider an appropriate level of detail
- Show evidence of how we comply with this Significance and Engagement Policy
- Provide processes to encourage and engage with Māori.

Process

On every issue requiring a decision, Council will consider the degree of significance and the most appropriate level of engagement.

HBRC will refer to the *Criteria for significance* (page 2) to identify matters, issues or proposals that require a Council decision. Advice on significance and options will come from an HBRC officer or other professional. Council will consider and make decisions, taking into account the degree of significance of the issue and referring to the *Criteria for engagement* (page 3) to identify the appropriate level and type of engagement.

Advice from HBRC officers normally comes through the Council-approved report format. This format specifically alerts elected members to significant impacts and engagement considerations.

Our general approach to significance

Significance means the degree of importance of the issue, proposal, decision, or matter – determined by the local authority – relating to its likely impact on and likely consequences for:

- The district or region
- Any persons who are likely to be particularly affected by or interested in the issue, proposal, decision or matter
- The achievement of, or means to achieve, HBRC's stated levels of service as set out in the current Long Term Plan
- The capacity of HBRC to perform its role and carry out its activities, now and in the future
- The financial, resource and other costs of the decision, or that these are already included in an approved Long Term Plan.

Council will exercise its judgement when assessing the degree of significance for each decision to be made by Council.

Significant means that the issue, proposal, decision or other matter is judged by Council to have a high degree of importance. This is typically when the impact is on the regional community, or a large portion of the community or where the financial consequences of a decision are substantial.

If the issue, proposal, decision or related matters concerned involve a significant decision in relation to land or a body of water, Council will take into account the relationship of Māori and their culture and traditions with their ancestral land, water, sites, waahi tapu, valued flora and fauna, and other taonga. Council will also take into account the values of the whole community.

When making decisions, Council will:

- Identify and assess as many options as are practical
- Evaluate the costs and benefits resulting from the decision/s to be made
- Provide detailed information, which will be accessible to the public
- Maintain clear and complete records showing how compliance with this Significance and Engagement Policy was achieved.

As part of the engagement process for the adoption of this policy, and subsequent reviews, Council will ask people in the region their engagement preferences and will review those preferences each three-year term.

Council will also take into account views already expressed in the community and make judgements on the level of support for those views, when determining the significance of a decision.

Criteria for Significance

When looking at the significance of a matter, issue, decision or proposal, elected members will assess:

- The likely level of community interest
- The likely impact or consequences for affected individuals and groups in the region
- How much a decision or action promotes community outcomes or other Council priorities
- The impact on levels of service identified in the current Long Term Plan
- The impact on rates or debt levels
- The cost and financial implications of the decision to ratepayers
- The involvement of a strategic asset.

Strategic assets

Strategic assets are owned by Council and defined as 'an asset or group of assets that the local authority needs to retain to maintain its capacity to achieve or promote any outcome that it determines to be important to the current or future well-being of the community.' This does not include strategic natural resources managed by Council. Regionally significant natural resources are served by the Resource Management Act and Regional Resource Management Plan.

HBRC considers the following to be strategic assets:

- Napier Port
- Heretaunga Plains Flood Control Scheme
- Upper Tukituki Catchment Control Scheme
- Tūtira Regional Park (excluding commercial forestry)
- Pekapeka Regional Park
- Pākōwhai Regional Park
- Hawke's Bay Regional Investment Company Limited.

HBRC owns a number of assets that, managed as a whole, we consider 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, i.e. 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 may not amount to a significant decision.

Our general approach to engagement

Engagement is a term used to describe the process of seeking information from the community to inform and assist decision-making. There is a spectrum of community involvement, and HBRC follows these general principles:

- We conduct our business in an open, transparent, democratically accountable manner
- We stay aware of, and have regard to, the views of all of our communities
- When making a decision, we consider: the diversity of the community and the community's interests in its district or region; the interests of future as well as current communities; and the likely impact of any decision on these interests
- We provide opportunities for Māori to contribute to our decision-making processes.

HBRC seeks authentic engagement with our community and applies a *Criteria for engagement*. We acknowledge that "community" may be 'communities of place' or 'communities of issue' and will use appropriate tools and techniques to make meaningful and timely connections that result in feedback. Formal consultation is one of many approaches that can be used.

Guidance on obligations and timing to respond to public correspondence is addressed in the Local Government Official Information and Meetings Act 1987 (LGOIMA or OIA), which sets a maximum of 20 working days.

HBRC will prepare an Engagement Plan for each major decision or group of interrelated decisions. Decisions are not usually delegated to those involved in the engagement processes, however they are likely to be informed by community and stakeholder engagement.

An Engagement Plan will outline:

- Engagement objectives – the feedback that is sought from communities
- Timeframe and completion date
- Communities to be engaged with
- Engagement tools and techniques to be used
- Resources needed to complete the engagement
- Communication planning needed
- Basis of assessment and feedback to the communities involved
- Project team roles and responsibilities.

Engagement is not solely about providing information, is not always about reaching an agreement or consensus and is not always about negotiation. Engagement is not appropriate when outweighed by commercial sensitivity or when there is a threat to public health and safety.

Criteria for engagement

Community engagement is a process. It involves all or some of the public and is focused on decision-making or problem-solving. HBRC considers the significance of a decision to be made and uses a table of criteria to assess the approach we might take to engage the community.

In some circumstances HBRC is required to use the special consultative procedure, set out in section 83 of the Act and described in a separate section below.

Decisions will be "informed" as a minimum standard. Decisions of high significance will be at the very least informed to wider communities, and will use engagement tools and techniques beyond "inform" for affected communities.

While community and stakeholder engagement improves decision-making, it is not the sole input into a decision. There are a wide range of information sources and perspectives that will inform a council decision. All the input gathered is harnessed and collated to help make a 'sustainable' decision (i.e. unlikely to require re-visiting because it is well-informed and well-considered). Decisions made by Council may differ from the prevailing public opinion.

The level of engagement will be agreed on a case-by-case basis. The significance of the decision will guide the selection of appropriate engagement tools and techniques to be used. A low level of engagement does not mean that engagement is diminished, inappropriate or necessarily that a decision is of lesser significance. Time and money may limit what is possible on some occasions.

Engagement Spectrum[1] – our approach

Level	1. Inform	2. Consult	3. Involve	4. Collaborate	5. Empower
What it involves	*One-way communication* - to provide public with balanced, objective information to assist them in understanding problems, alternatives, opportunities and/ or solutions	*Two-way communication* - to obtain public feedback on analysis, alternatives and/ or decisions	*A participatory process* - to work with public through the process to ensure that public concerns and aspirations are consistently understood and considered	*Working together* - to partner with public in each aspect of the decision including the development of alternatives and identifying the preferred solution	*Public empowerment* - to place final decision-making in public hands
Types of issues that we might use this for	- Report adoption - Algal bloom - Pest control - Access issue	- Annual Plan - Long Term Plan - Regional Land Transport Programme	- Flood & drain scheme review - Regional cycling plan	- Tukituki plan change - Taharua/ Mohaka plan change	- Election voting systems (STV or first past the post)
Tools Council might use	- Website - Media release - Brochure/ flyer - Public notice/s	Formal submissions & hearings, social media, email, focus groups, phone surveys, surveys, video	- Workshops - Focus groups - Citizens panel	- External working groups (involving community experts)	- Binding referendum - Local body elections (Special Consultative Procedure)
When the community can expect to be involved	Council will generally advise the community when a decision is made	Council will advise the community when a draft decision is made and generally provides the community with up to four (4) weeks to participate and respond	Council will generally provide the community with a greater lead-in time to allow the time to be involved in the process	Council will generally involve the community at the start to scope the issue, again after information has been collected and again when options are being considered	Council will generally provide the community with a greater lead-in time to allow them time to be involved in the process – typically a month or more

HBRC engages with communities in many ways, from face-to-face to meetings, forums and surveys. Preferences for community engagement are periodically evaluated through regional surveys[2].

[1] Using the International Association of Public Participation (IAP2) Spectrum of Engagement

[2] 2013 Regional Resident Survey, SIL Research, confirmed post/ mail, phone, newspaper and email as most preferred

Special consultative procedure

In some cases, and as we are required under the Act, HBRC will use the special consultative procedure to issue a proposal. When that happens, the proposal will be open to the community to provide their views for at least a month. The process we will follow is to:

- Prepare and adopt a statement of proposal, and in some cases a summary of the statement of proposal which is:
  - a fair representation of the statement of proposal
  - in a form determined by HBRC, i.e. published online, in the newspaper and/ or in HBRC's regional newsletter, so long as it is distributed as widely as reasonably practical
  - indicates where it is available
  - states how long it is open for public submission.
- Make publicly available (at Council offices, through interest group distribution lists, at Public Libraries, on HBRC's website):
  - the statement of proposal
  - a description of how people can present their views
  - a statement of the period the proposal is open for comments.
- Make the summary of proposal widely available
- Allow people to present their views to HBRC ensuring that they have a reasonable opportunity to do so and know how and when this opportunity will be available to them
- Allow people to present their views by audio link or audio-visual link, or as agreed.

HBRC may also request advice or comment from a Council officer or any other person.

Where HBRC is required to use the special consultative procedure as part of making or amending bylaws, the statement of proposal must include:

- A draft of the proposed bylaw, or the proposed amendment of the bylaw
- The reasons for the proposal
- A report on any determinations made under the Act on whether a bylaw is appropriate.

Where HBRC is required to or chooses to use the special consultative procedure, the statement of proposal is a draft of any plan, policy or similar document or in any other case a detailed statement of the proposal which must include:

- The reasons for the proposal
- An analysis of options
- Any other relevant information.

Review of Policy

This policy will be reviewed at least once every five years, when it will involve community engagement. It may also be amended from time to time.