Draft Funding and Financial Policies

Contents

Summary of Amendments to Previous Investment Policy

This is a summary of the substantive changes proposed in the Investment Policy 2018-28 from the current operating Investment Policy 2015-25. The summary below is set out by reference to the section headings of the Investment Policy 2018-28.

Section 4 Objectives

The new Investment Policy has removed the previous reference to "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." It was believed that this objective restricted the ability to earn better returns and also increased the overall risk profile due to concentration of investments in one location.

Section 6 Ethical Investment

HBRC has included an ethical investments section to take into consideration when making investment decisions. Where practical, investments will be made taking into account the ethical practices of the investment entity. HBRC's intention for its investment portfolio is to avoid direct involvement with industries that have a negative impact on society and the environment. This includes:

- Alcohol
- Tobacco
- Fossil fuels
- Military/weapons.

Section 7 Investment Classes

HBRC has changed the focus of equity investments. HBRC has previously held a view that capital appreciation and dividend and income growth in its equity holdings is more valuable to the regional community than dividend or income yield at any point in time. The change is that annual income is now the priority with capital appreciation important but secondary.

Draft 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 present HBRCs policies in respect to investments including:

- The mix of investments
- The acquisition of new investments
- An outline of the procedures by which investments are managed and reported to Council
- An outline of how risks associated with investments are assessed and managed.

3. Scope

HBRC has a significant portfolio of investments comprising of:

- Equity investments
- Property investments
- Forestry investments
- Treasury investments

Investments bound by this policy are all of 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.

There are two investment categories that HBRC may invest in:

Financial Investments – the purpose of financial investments is to provide annual cash income at budgeted amounts.

Blended Investments – the purpose of blended investments are to invest in projects that may have a combined objective of providing some financial benefit as well as environmental or regional economic growth benefits.

Blended investments are only to be invested in if the total investment portfolio can provide the annual cash income requirements of HBRC.

4. Objectives

The objectives of this investment policy are to:

- 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
- maintain long term gains in capital value of its investments for the benefit of future as well as current generations
- To balance the minimisation of risk and the maximisation of returns
- To balance the mix of financial investments and blended investments

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.

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. Ethical Investment

Where practical, investments will consider the ethical practices of the investment entity. HBRC's intention for its investment portfolio is to avoid direct involvement with industries that have a negative impact on society and the environment. This includes but is not limited to:

- Alcohol
- Tobacco
- Fossil fuels
- Military/weapons.

7. Mix of Investments

Equity Investments

HBRIC Ltd

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.

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.

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 2017-18 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 2017-18

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 2017-18

Performance Indicator	Target
Net debt to net debt plus Equity	<40%
Interest cover (EBIT/Interest paid)	>3x
EBITDA/Total Assets	9%
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.

Port of Napier Limited

As at 30 June 2017, HBRC beneficially owned 100% of the shares in PONL through HBRIC. HBRC's strategic objective is to continue to beneficially hold a majority of the shares of PONL 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 PONL recommended by HBRIC Ltd.

Property Investments

Napier leasehold property

HBRC owns leasehold endowment property within and around Napier City. 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.

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.

Ground rents paid by lessors have been predominantly set at 5% or "fair annual ground rental" and reviewed every 21 years.

Wellington leasehold property

HBRC owns 12 leasehold properties in the suburbs of Kelburn and Thorndon in Wellington, which are not subject to endowment restrictions. These leases provide an annual return with leases renewed every 14 years. HBRC reserves the right to sell some or all of these properties and reinvest the proceeds in appropriate investment classes specified in this policy.

Other Property Investments

HBRC may invest in other property if they meet section 1 to 6 of this investment policy and the correct delegations are engaged.

Forestry Investments

HBRC has an existing forestry portfolio consisting off:

Site Name	Area (ha)	Assumptions
CHB	168	No material investment, maintenance only, no harvesting in LTP period
Mahia	36	No material investment, maintenance only, no harvesting in LTP period
Waihapua	213	No material investment, maintenance only, no harvesting in LTP period
Tutira	114	Harvesting proposed over the period from 2018/19 to 2022/23. Replanting after harvest
Tutira Manuka Honey	130	Maintenance continues with yearly honey income of $46,000 assumed
Tangoio	150	Harvesting proposed over the period from 2020/21 to 2021/22. Replanting after harvest

Return on the forestry investments are determined by the harvest revenue received.

Tangoio forestry is treated differently from all the other forestry investments as HBRC does not own the land but does have responsibility for the management and control of the forest. Any income received from harvest is kept on reserve to fund the continuing maintenance programme and is not available for the funding of general.

Treasury investment

Term deposits

HBRC currently holds both investment and reserve funds on term deposits with approved banking institutions.

Investment Portfolios

HBRC may invest in investment portfolios if they meet section 1 to 6 of this investment policy and the correct delegations are engaged.

8. Acquisition of Investments

New investments will be acquired from time to time within the investment classes specified in accordance with the policies and objectives recorded in this policy.

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

9. 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 Council, other than those made within delegated authority granted by HBRC.

HBRC regards Napier Port 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 Napier Port from its present 100% shareholding to not less than 51% (i.e. still retaining control) by selling shares to a third party (or parties) or by changing how the Napier Port is managed and operated, 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 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 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.

10. 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.

11. Risk Assessment and Management

The risk profile of the 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 Napier Port and Napier endowment property and the investment company established by HBRC.
- HBRC may 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 Napier Port (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 will appoint external professional investment advisers 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 managed funds portfolio and HBRC's Disaster Damage Reserve.

12. Investment Classes

HBRC can invest in the following investment classes.

12.1 Investment Instruments

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

12.2 Investment Property

Investment property includes Napier endowment property and other unrestricted investment property assets.

12.3 Forestry

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

12.4 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).

12.5 Related Equity Investments

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

12.6 Equity Investments: Joint Ventures

Equity investments in joint ventures with external partners.

12.7 Loans and Mortgages

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

12.8 Investment Portfolios

Both professionally managed (external to HBRC) and internally managed investment portfolios of assets classes itemised in this Section, either by direct investment or through unit trusts.

12.9 Internal loans

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

13. Specific Investment Criteria

13.1 Investment Instruments

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:
  - $5 million, or
  - 40% of this investment class.

13.2 Investment Portfolios (excluding the Disaster Damage Reserve)

Investment portfolios may invest in any of the investment classes indicated in this policy.

The portfolio must earn at least 4.5% cash return on the funds for the first year of the LTP and then a 5% cash return for the rest of the LTP in line with the financial strategy.

Fund managers have the responsibility to obtain these returns while taking into account the following considerations and requirements of this policy.

- Cash Return
- Liquidity
- Capital Gains
- Risk Balance – Location, Industry risk
- Diversification of investments
- Responsible Investment
- Ethical Investment

13.3 Disaster Damage Reserve

As a specific part of its Disaster Damage Reserve 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).

These investments 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

13.4 Other Reserves

HBRC holds a number of reserves for which is holds investments for. These include asset replacement provisions, disaster damage management and land drainage and flood control schemes. These funds need to be readily realisable to meet their particular purposes. All of the returns for these reserves are retained within the individual reserves.

13.4 HBRC Cash Reserves

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 at a level no less than $3 million.

14 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**
Council / Corporate and Strategic committee	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 "Investment Classes" section 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.

15. 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.

16. Review of Policy

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

Draft 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.

Local Government Funding Agency Ltd

HBRC has proposed, as part of the public consultation for this LTP, to join the LGFA Scheme, including borrowing from the LGFA and entering into the transactions relating to that borrowing.

The primary objective of these changes is to allow borrowing by the Council at lower interest margins than it currently faces.

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.

Review of Policy

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

Draft 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 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 a rates payment has not been received by the due date.

Conditions and criteria

Upon receipt of an application from the ratepayer either in written or email format, or if identified by Council, a penalty may be remitted where at least one of the conditions listed below are met:

1. A full payment of outstanding rates due (excluding a penalty amount) has been made prior to the application being received by the Council, and if the ratepayer has previously paid all rates by the due date within the last three years.
2. Where a ratepayer has rate arrears, that on entering and adhering to a payment plan, the additional penalties will be remitted at an agreed time.
3. Where payment has been late due to an unforeseen disruption to the normal activities or business of the ratepayer, i.e. serious illness, case of death, injury, accident of family member, or family circumstances.
4. The late payment was caused by matters outside of the ratepayer's control.
5. It is demonstrated that the penalty has been levied because of an error by Council.
6. Where it is considered just and equitable to do so. Each application will be considered on its merits.

Matters that will be taken into consideration by Council under above include:

1. The ratepayer's payment history
2. The ratepayer entering into an agreement with Council for the payment of rates.
3. Matters controlled by the ratepayer may include: electronic payment errors, late posting of payment, failure to update mailing or direct debit arrangement.
4. Matters out of the control of the ratepayer may include: payments missing in transit, change of ownership, bank errors.

Where there is a deliberate non-payment, remission will not be granted. 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.

Draft Revenue and Financing Policy

Introduction

This policy has been prepared in accordance with Sections 101 (3), 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 and capital expenditure for the 10 years beginning 1 July 2018.

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 that are appropriate to fund operating and capital expenditure, the Council has considered the following.

The Revenue and Financing Policy (Policy) contains Council's policies with respect to the funding of operating expenditure and capital expenditure from various revenue sources. Section 101 (3) of the Local Government Act 2002 (LGA) set out the requirements Council must consider as part of the development of the policy.

The first step requires consideration, at activity level of each of the following.

i. community outcomes - the community outcomes to which the activity primarily contributes (in other words your rationale for service delivery)

ii. the user/beneficiary pays principle – the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals. This is also known as a public versus private allocation

iii. the intergenerational equity principle – the period in or over which those benefits are expected to accrue

iv. the exacerbator pays principle – the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity, and

v. the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities.

The second step in the process considers the aggregate all of the results from step one, and consider the impact that these results might have on the community.

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

Revenue and Financing Policy by 'Group of Activity'

Step one allocations

Details of funding by each activity are provided in the tables that follow. The Council has used the following table in assessing each on the considerations listed (ii to v) above.

Key for allocation	
Low	10% to 20%
Low to medium	20% to 40%
Medium	40% to 60%
Medium to High	60% to 80%
High	80% to 100%

The following tables reflect the Council's considerations of each of the Council's activities. It is important that the notes to these tables are read along with the figures in the tables in the appendix to the policy as the notes provide the reasoning applied to each funding split between public and private

Groups of Activities/activities	Community outcomes	Public/private allocation	Intergenerational	Actions or inactions	Costs and benefits of funding the activity distinctly from other activities	Rationale	Operational funding	Capital funding
1. Governance								
1.1 Community Representation and Leadership	Vibrant Community	100% Public	Nil	Low	Nil	All ratepayers benefit from this activity	General funding	Nil
1.2 Tāngata Whenua Partnerships and Community Engagement		100% Public	Nil	Low	Nil	All ratepayers benefit from this activity	General funding	Nil

Groups of Activities/activities	Community outcomes	Public/private allocation	Intergenerational	Actions or inactions	Costs and benefits of funding the activity distinctly from other activities	Rationale	Operational funding	Capital funding
2. Strategic Planning								
2.1 Strategy	Healthy Environment / Vibrant Community / Prosperous Economy	100% Public	Nil	Low	Nil	All ratepayers benefit from this activity	General funding	Nil
2.2 Planning		100% Public	Nil	Low	Nil	All ratepayers benefit from this activity	General funding	Nil
2.3 Sustainable Regional Development		100% Public	Nil	Low	Nil	All ratepayers benefit from this activity, however business receive a greater value that other ratepayers	Uniform Targeted rates and Targeted rates set on a capital value	Nil

Groups of Activities/activities	Community outcomes	Public/private allocation	Intergenerational	Actions or inactions	Costs and benefits of funding the activity distinctly from other activities	Rationale	Operational funding	Capital funding
4. Asset Management								
4.1 Flood Control and Protection Works	Prosperous Economy / Vibrant Community	Low public good, high private good	High	Low to medium	High (based on a number of schemes)	Broadly the properties that are protected by this activity gain significant benefit compared with other properties	General funding, differential targeted rates based on location and area	Use of reserves, loans and targeted rates
4.2 Flood Risk Assessment and Warning		High public good	Low	Nil	Nil	Generally all ratepayers benefit from this activity	General funding	Nil
4.3 Coastal Hazards		Medium public good and medium private good	Medium	Low	Medium		General and grants funding and targeted rates based on location	General funding and targeted rates based on location
4.4 Opens Spaces		High public good	Low	Nil	Nil	Generally all ratepayers benefit from this activity	General funding and fees and charges	Use of reserves, loans and general funding
4.5 Works Group		High private good	Low	Low	Nil		Fees and charges	

Groups of Activities/activities	Community outcomes	Public/private allocation	Intergenerational	Actions or inactions	Costs and benefits of funding the activity distinctly from other activities	Rationale	Operational funding	Capital funding
7. Transport								
7.1 Transport Planning and Road Safety	Prosperous Economy / Vibrant Community	100% Public	Nil	Low	Nil	All ratepayers benefit from this activity	General funding, local territorial authority and central government contribution and grants	Nil
7.2 Passenger Transport		Medium to high private benefit	Low	Low	Low	Those who use public transport are the primary beneficiaries, however there is a benefit to the region by having a public transport network	Fees and charges, central government subsidy	Low
7.3 Regional Cycling		100% Public	Nil	Low	Nil	All ratepayers benefit from this activity	General funding	Nil

Step two considerations

Council has considered the overall impact of these allocations including the use of fees and charges, the use of general funds which includes General rates and investment income. After the consideration of general funds, the primary tool that provides for the modification of the impacts on rating is the use of the uniform annual general charge UAGC). Council believes that by having an appropriate UAGC fairly reflects the services being delivered to the community.

It also believes that a move from land to capital value requires investigation and further discussions with the community that may impact on the overall allocation of liability on the community.

Others changes

Additional penalties to be added from July 2019

All outstanding rates including previous penalties as at 1 July each year will now have a penalty of 10% added to those rates. This penalty will be added on the first working day after 1 July each year.

Rate invoicing period change

It is proposed that during the 2018-28 LTP period HBRC will investigate changing the date that rate invoices are sent out and the final due date each year.

Detailed explanation of Council's considerations

i. Community Outcomes

The requirement to consider community outcomes in the funding process is seen as an obligation for Council to consider why it is engaged in an activity and to what level. To that extent, possible funding of activities should be consistent with achievement of desired outcomes.

ii. Distribution of Benefits

At this stage, Council is required to consider who benefits from the activities performed by Council. This is expressed as the Public/Private split. Economic theory suggests there are two main characteristics that need to be considered when looking at a particular good or service:

Rivalry in Consumption

A good is a rival in consumption if one person's consumption of the good or service prevents others from doing so, eg a chocolate bar is a good with a large degree of rivalry in consumption, i.e. if Bill eats it, Jane cannot.

Excludability

A good or service is excludable if a person can be prevented from consuming the good or service, eg if Bill does not buy a movie ticket, then the usher can exclude him by preventing him from entering the theatre.

At one end of the continuum there are so-called 'public goods'. These are goods which are both non-rival and non-excludable, ie everyone can consume them and no one can be prevented from consuming them if they wish. A good example of a public good is national defence, where the whole community is protected from an invasion by the armed forces whether it wishes to be or not, and this protection cannot be removed from anyone in New Zealand.

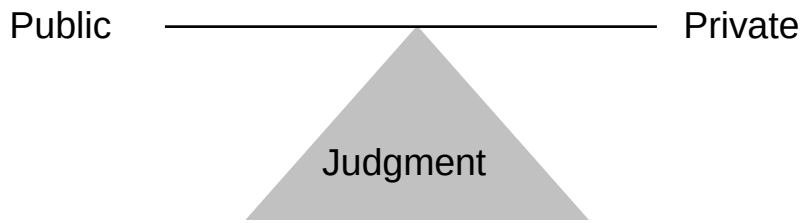
At the other end of the continuum are 'private goods' which are both rival and excludable. Most daily consumables are private goods.

Very few goods and services are entirely public goods or private goods. Most goods and services are 'mixed goods' and fall somewhere between the two ends of the continuum.

The characteristics of a good or service determine what type of funding mechanism might be used to fund a particular service. Council has already made judgements about what it considers are public goods when deciding whether or not to undertake a particular activity.

For example, a good towards the public end of the continuum may not be a good candidate for user charges as people cannot be prevented from consuming it, or because everyone consumes it whether they wish to or not. Such goods will generally be candidates for funding from some general source such as a general rate. A good towards the private end of the spectrum may be a candidate for a targeted rate or a user charge.

In the end, it is likely to come down to 'reasonable' judgement. Both the LGA and previous case law place the responsibility on elected members to make decisions about who benefits and who should pay.



iii. Distribution of Benefits Over Time

Council needs to consider something called 'intergenerational equity' which means that funding decisions are required to consider future generations, not just today. Many of the activities provided by local government are either network or community infrastructure which has long service lives. Benefits from these services can be expected to accrue over the entire life of the asset. Current ratepayers should not be expected to subsidise the benefits that future ratepayers receive nor should future ratepayers subsidise current ratepayers.

One way that Council applies the intergeneration equity principle is by spreading costs over the future. Council will typically borrow to fund the cost of a project and future ratepayers will repay the loan (and interest cost), say over a 25 year period. Council typically only borrows to fund capital expenditure but Council may use short term borrowing to spread some operating costs smooth funding over a limited period to avoid rate spikes.

Council also needs to ensure that appropriate funding has been allocated to reasonably meet the levels of service that each activity is targeting to meet and financial sustainability into the future needs to be considered.

iv. Actions or Inactions of Individuals or Groups

This generally refers to how to make the 'exacerbators' pay. This could include funding mechanisms to allow for the fining of people that cause unwanted Council activity, eg cleaning up abandoned cars or rubbish. However, Council has very limited funding mechanisms to enable targeted charging and, in many cases, it is not possible to pass this cost on to the exacerbator and, therefore, it becomes more a case of identifying the quantum of the issue and deciding who then should bear the cost, if not the exacerbator.

V. Costs, Benefits and Separate Funding

Council is required to consider whether an activity should be separately funded and what the cost implications might be. There are administration costs associated with separate funding and these need to be weighed against any benefits of targeting specific beneficiaries/users of a service, including transparency and accountability.

Transparency and accountability are most evident when an activity is totally distinctly funded. This allows ratepayers, or payers of user charges, as the case may be, to see exactly how much money is being raised for and spent on the activity, and to assess more readily whether or not the cost to them of the activity represents good value.

However, funding every activity this way would be extremely complex. For some activities, the quantity of rates funding to be collected amounts to only a few cents per ratepayer. The administrative costs and lack of significance lead Council to fund a number of activities by way of a general rate. To aid in transparency and accountability, Council separates the total general rate into reasonable activity breakdowns when presenting the ratepayer with their rates assessment notices. This then allows the ratepayer to make some form of meaningful assessment down to activity level.

Selection of tools

Section 103(1) requires Council to identify the funding of operational expenditure and capital expenditure.

Operational expenditure is normally funded by way of revenue (income) while capital expenditure can be funded by way of both revenue and non-revenue items such as borrowings and the use of Council created reserves.

Capital expenditure is expenditure when the benefit of that expenditure is greater than one year and therefore benefits obtained by those assets spread according to the life of the asset.

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 seven '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.

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.

  It is proposed that during the 2018-28 LTP period HBRC will investigate changing the general rate basis from land value to capital value. If it was proposed to change the current basis the options and implications will be publically consulted.

  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); Napier leasehold property investments; Forestry assets and reserve funds.

General Funds

Investment income is used to offset the general rate requirements of HBRC. For the purposes of this Revenue and Financing Policy investment income, general rates and UAGCs have been combined and are referred to as general funds.

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. 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 have some reserves which help in the financial management of 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.

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.

Set out below in the following appendix is Council's detailed allocation of rates and rationale.

Appendix to the Revenue and Financing Policy

Please Note:

- General Funds include General Rates on Land Value, Uniform Annual General Charges and Investment Income.
- Targeted Rate denotes the amount required from targeted rates net of any internal revenue contributions or other sundry income
- Funding required excludes internal revenue contributions
- Previous Policy reflects the Policy that was adopted in the 2015-25 ten year plan as well as amendments passed through subsequent Annual Plans.
- The cost of targeted rate collection is met directly from targeted ratepayers.
- The notes to these tables provide the logic to support the distribution of benefits between Public and Private benefits.

Group of Activity: Strategic Development								
Sub -Activity	Further Analysis	Previous Policy		Proposed Policy		Funding Tools		Notes
		Public	Private	Public	Private	Public	Private	
Strategy		100%	Nil	100%	Nil	General Funds	Nil	1
Planning		100%	Nil	100%	Nil	General Funds	Nil	2
Economic Development		Nil	100%	Nil	100%	Nil	Differential Targeted Rate	3

1. This activity ensures that organisational strategy is more effectively translated into action to achieve the desired outcomes as set by council in its Strategic Plan. It includes research, programme management, and development of statutory and non-statutory regional strategies and plans including the Long Term Plan and Annual Plan. HBRC treats these costs as a public cost and funds them through the use of general funds.
2. This activity develops, reviews and evaluates Resource Management Act 1991 (RMA) planning documents including the Regional Policy Statement, Coastal Plan and Regional Resource Management Plan. This activity also provides statutory advocacy of council's resource management policies and interests through submissions and various exchanges with other resource management agencies. HBRC treats these costs as a public cost and funds them through the use of general funds.
3. This activity promotes economic development for the region and contributes to Business Hawke's Bay and Hawke's Bay Tourism and the Regional Business Partners Programme. HBRC is the sole local government funder of Hawke's Bay Tourism by agreement with the region's TLAs. It is considered that this activity provides a greater and more immediate benefit to the broader business community. On this basis the Economic Development activity is fully fund through the use of an Economic Development Rate across the region. The basis of the rating in the 18-19 year is that 50% of the total Economic Development rate is to be funded by the commercial or industrial properties and based on capital value. The remaining 50% 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. For the 19/20 year onwards the rating basis will shift to 70% of the total Economic Development rate is to be funded by the commercial or industrial properties and based on capital value. The remaining 30% 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.

Group of Activity: Asset Management								
Sub -Activity	Further Analysis	Previous Policy		Proposed Policy		Funding Tools		Notes
		Public	Private	Public	Private	Public	Private	
Heretaunga Plains Schemes	Drainage	10%	90%	10%	90%	General Funds	Differential Targeted Rate	4
	Flood Control	30%	70%	30%	70%	General Funds	Differential Targeted Rate	5
Upper Tukituki Scheme		18%	83%	18%	83%	General Funds	Differential Targeted Rate	6
Other Schemes	Paeroa	13%	88%	13%	88%	General Funds	Differential Targeted Rate	6
	Makara	10%	90%	10%	90%	General Funds	Differential Targeted Rate	6
	Porangahau	10%	90%	10%	90%	General Funds	Differential Targeted Rate	6
	Poukawa	5%	95%	5%	95%	General Funds	Differential Targeted Rate	6
	Ohuia-Whakaki	5%	95%	5%	95%	General Funds	Differential Targeted Rate	6
	Esk	13%	88%	13%	88%	General Funds	Differential Targeted Rate	6
	Whirinaki	13%	88%	13%	88%	General Funds	Differential Targeted Rate	6
	Wairoa	13%	88%	13%	88%	General Funds	Differential Targeted Rate	6
	Te Awanga	10%	90%	10%	90%	General Funds	Differential Targeted Rate	6
	Kopuawhara	10%	90%	10%	90%	General Funds	Differential Targeted Rate	6
	Opoho	10%	90%	10%	90%	General Funds	Differential Targeted Rate	6
	Kairakau	10%	90%	10%	90%	General Funds	Differential Targeted Rate	6
	Te Ngarue	10%	90%	10%	90%	General Funds	Differential Targeted Rate	6
	Central & Southern	13%	88%	13%	88%	General Funds	Differential Targeted Rate	6
Investigations & Enquiries	Investigations and Enquiries	100%	Nil	100%	Nil	General Funds	Nil	7
	Subsidised Work	30%	70%	30%	70%	General Funds	Fees/Charges	8
	Consultancy Services	Nil	100%	Nil	100%	Nil	Fees/Charges	9

Sub -Activity	Further Analysis	Previous Policy		Proposed Policy		Funding Tools		Notes
		Public	Private	Public	Private	Public	Private	
Gravel Management	Gravel Management	Nil	100%	Nil	100%	Nil	Fees/Charges	11
	River Cross Sections	100%	Nil	100%	Nil	General Funds	Nil	12
Flood Assessment and Warning	Flood Risk Assessment	100%	Nil	100%	Nil	General Funds	Nil	13
	Flood Forecasting & Hydrological Flow Management	100%	Nil	100%	Nil	General Funds	Nil	13
	Flood Warning System	100%	Nil	100%	Nil	General Funds	Nil	14
Coastal Hazards	Westshore	50%	50%	50%	50%	General Funds	Contribution from Napier City Council	15
	Coastal Processes	100%	Nil	18%	82%	General Funds	Contribution from Napier City & Hastings District Council and Targeted Rate	16
Open Spaces	Regional Park Networks	98%	2%	98%	2%	General Funds / Reserve Funds	Fees/Charges	17
	Public Access to Rivers	100%	Nil	100%	Nil	General Funds	Nil	18

4. 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 general funds. The 90% private benefit is funded through a targeted rate based on capital value.
5. 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 general funds.
6. 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.

7. 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 general funds.
8. 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 general funds. The 70% private benefit is recovered through the charging of fees to the requesting landowner(s).
9. 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.
10. This activity was initially identified as a 30% private benefit 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 general funds.
11. 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.
12. Cross section 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 general funds.
13. There is a region wide benefit from flood risk assessment work for identifying and quantifying potential hazards and also for the work for flood forecasting & hydrological flow management which is funded as a public cost through the use of general funds.
14. 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 100% and funded through the use of general funds.
15. The Westshore coastal works are funded by 50% public / 50% private. This 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 general funds will meet the public benefit share of these costs. The private benefit costs are met by the Napier City Council.
16. The Coastal Processes activity has incorporated substantial new work in the past few years for Clifton to Tangoio Coastal Hazards Strategy, taking into account sea level rises, increased storminess, coastal erosion, coastal inundation and tsunami. This has been a joint working committee with both Napier City Council and Hastings District Council who have met 45% of the costs. There is a new Coastal Erosion targeted rate for those in the Napier and Hastings districts to 37% of the costs The remaining 18% has been treated as a public good and funded through the use of general funds.
17. HBRC maintains, develops, and provides public access to six regional parks. 2% of the funding is provided by lease and rental income with the residual 98% private benefit costs are met by general funds.

18. The public good element of this public access to rivers activity is funded through the use of general funds, and the private good element funded through charges in relation to white bait stands.

Group of Activity: Integrated Catchment Management								
Sub -Activity	**Further Analysis**	**Previous Policy**		**Proposed Policy**		**Funding Tools**		**Notes**
		Public	Private	Public	Private	Public	Private	
Science and Information	State of the Environment Reporting	83%	18%	83%	18%	General Funds	Fees/Charges	19
	Research and Grants	100%	Nil	100%	Nil	General Funds	Nil	20
	Water Science	65%	35%	65%	35%	General Funds	Fees/Charges	21
	Land Monitoring	75%	25%	75%	25%	General Funds	Targeted Rate	22
	Land Research & Investigations	65%	35%	65%	35%	General Funds	Fees/Charges	23
	Air Quality	100%	Nil	100%	Nil	General Funds	Nil	24
	Sustainable Homes	Nil	100%	Nil	100%	Nil	Targeted Rate & Fees/Charges	25
	Water Information Services	Nil	100%	Nil	100%	Nil	Fees/Charges	26
Catchment Management	Environmental Enhancement Projects	New	New	100%	Nil	General Funds	Nil	27
	Future Farming Trust	New	New	100%	Nil	General Funds	Nil	28
	Integrated Catchment Activities – Afforestation/Riparian	New	New	75%	25%	General Funds	Fees/Charges	29
	Integrated Catchment Activities – FEMP	New	New	10%-13%	90%-87%	General Funds	Fees/Charges	29
	Sustainable Land Management	75%	25%	75%	25%	General Funds	DifferentialTargeted Rate	30
	Soil Conservation Nursery	Nil	100%	Nil	100%	Nil	Fees/Charges	31

Sub -Activity	Further Analysis	Previous Policy		Proposed Policy		Funding Tools		Notes
		Public	Private	Public	Private	Public	Private	
Pest Animal Control	Rabbit Control	30%	70%	30%	70%	General Funds	Differential Targeted Rate	32
	Possum Control	30%	70%	30%	70%	General Funds	Differential Targeted Rate	33
	Rook Control	30%	70%	30%	70%	General Funds	Differential Targeted Rate	34
	Site Specific Pest Animal Control	30%	70%	30%	70%	General Funds	Differential Targeted Rate	35
	Predator Free Hawke's Bay	New	New	40%	60%	General Funds	Differential Targeted Rate	36
	Marine Pests	100%	Nil	100%	Nil	General Funds	Nil	37
Pest Plant Control	Research	30%	70%	30%	70%	General Funds	Differential Targeted Rate	38
	General Advice	30%	70%	30%	70%	General Funds	Differential Targeted Rate	38
	Incentive Scheme	100%	Nil	100%	Nil	General Funds	Nil	39
	Primary production pest plants	40%	60%	40%	60%	General Funds	Differential Targeted Rate	40
	Biodiversity/human health pest plants	100%	Nil	100%	Nil	General Funds	Nil	41
	Biological Control	100%	Nil	100%	Nil	General Funds	Nil	42
Pest Management Strategies		100%	Nil	100%	Nil	General Funds	Nil	43

19. 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.
20. 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 general funds.
21. 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.

22. 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, the 25% private benefit is to be funded as part of the targeted rate on those properties in the region over 4ha
23. Land Research & Investigations are integral to the Sustainable Land Management Programme. The private benefit for this activity has been assessed at 35% recovered through s36 zone based water science charging where the work is related to water quality outcomes.
24. 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 and general rates
25. Sustainable Homes has grown in this LTP to not only include the Heat Smart programme but to also encourage the use of solar energy, domestic water storage and upgraded septic tanks. Heat Smart has the aim to reduce particles of polluting smoke in the affected airsheds by replacing open fires or wood burners with more efficient forms of heating and also installation of insulation. 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.

    The new areas provide assistance to homeowners to install solar systems, to provide water storage that will improve resilience in an emergency and to improve the quality of septic tanks . These activities are classified as a private benefit and are funded by the charging of fees for those who take up the offer of Council assistance.
26. 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.
27. Environmental Enhancement Projects were introduced in the 2017/18 Annual Plan with the intention of starting the clean up of five environmental hot spots being Lake Turira, Ahuriri Estuary, Whakaki Lake and Waiora River, Lake Whatuma and Tukituki Catchment, Karamu Stream Due to the regional public benefit HBRC has treated this a public cost funded through the use of general funds.
28. The Future Farming Trust activity has been proposed to form a governance trust of regional farming leaders to provide guidance, knowledge, leadership and research into farming best practice. It is envisioned that this trust will obtain external funding from the industry and the Crown but at this stage these funding streams cannot be guaranteed and so HBRC initially treated this as 100% public cost funded through the use of general funds.
29. Integrated Catchment Activities are a new set of activities intended to reform the Land Management functions of Council to facilitate rapid delivery of solutions into catchments to attain the anticipated outcomes of in the Strategic Plan, NPSFM and RRMP. This incorporates a Farm Environment Management Plans (FEMPs) business unit to speed up the delivery of these plans. This activity encourages the completion of FEMPs by offering a facility for the cost of the FEMP to be placed against the property and the cost of the principle repaid by a targeted rate. The interest will be paid by HBRC as an incentive for compliance.

    This also incorporates the Riparian Business Unit to fund riparian fencing, planting and maintenance of planted areas and also an Afforestation scheme to get trees planted on highly erodible land. An incentive will be offered on these projects in the form of a 75% public funding for these projects with 25% directly privately funded. The public benefit is driven from improved water quality, instream ecological health and forest habitats and will be funded by general funds.

30. 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 general funds.
31. 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.
32. 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 general funds. The 70% private benefit is funded through a differential targeted rate on all rural properties greater than 4ha.
33. 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 general funds. 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.
34. 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 general funds.
35. This programme focusses on supporting land occupiers and community groups manage specific pest animals as part of a pest control programme or to protect QEII covenants and ecosystem prioritisation sites. Although there are significant biodiversity gains that the wider regional community is a beneficiary, almost all programmes are on private land in rural areas resulting in a 70% private, 30% public funding policy.
36. There will be both biodiversity benefits and primary production benefits from a Predator Free Hawke's Bay. Although the general community will benefit from the biodiversity gains, the primary beneficiary of predator control will be the agricultural sector. This is due to the programme being delivered in rural areas and the benefit from reducing the spread of parasites such as Toxoplasma gondii and bovine tuberculosis. The private portion of this activity is assessed as 60% and 40% public, to recognise the increased regional biodiversity benefits.
37. Marine pests are a major threat to production and conservation values in the Hawke's Bay marine system. Currently there is no active aquaculture being undertaken in Hawke's Bay but there are areas consented for this purpose. The primary beneficiary is the regional community therefore this activity is 100% publically funded through the use of general funds.

38. 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.
39. 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.
40. Although there are minor biodiversity benefits from managing some primary production pest plants, the primary beneficiary is the agricultural sector. To maximise the effectiveness of individual control across the region and to minimise the externality impacts of the plant the Council has proposed an advisory, inspectorial, and compliance regime. The primary beneficiaries of this programme are land occupiers, resulting in a 60% private, 40% public funding policy.
41. Biodiversity/human health pest plants are a major threat to biodiversity values and human health in the Hawke's Bay region. To maximise the effectiveness of individual control across the region and to minimise the externality impacts of the plant the Council has proposed an advisory, inspectorial, and compliance regime for these pests. The benefits of this programme are a public good rather than a private good, therefore this activity is 100% publically funded through the use of general funds.
42. Plant pest biological control has benefits to the overall region of animal and human health; the environment; and the region's economy. Although there may be an initial private benefit, biological control agents spread across the region, benefiting the regional community.
43. 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 general funds.

Revenue and Financing Policy
Group of Activity: Consents and Compliance

Sub -Activity	Further Analysis	Previous Policy		Proposed Policy		Funding Tools		Notes
		Public	Private	Public	Private	Public	Private	
Consents	Resource Consents	40%	60%	20%	80%	General Funds	Fees/Charges	44
	Appeals & Objectives	NA	NA	100%	Nil	General Funds	Nil	45
Compliance Monitoring	Compliance Programmes	30%	70%	20%	80%	General Funds	Fees/Charges	46
	Environmental Incident Response	100%	Nil	100%	Nil	General Funds	Nil	47
	Building Act Implementation	100%	Nil	100%	Nil	General Funds	Nil	48
	Hazardous Waste/ Substance Management	100%	Nil	100%	Nil	General Funds	Nil	49
Maritime Safety	Marine Oil Spill	Nil	100%	Nil	100%	Nil	Govt. Grants	50
	Coastal Use Management	100%	Nil	100%	Nil	General Funds	Nil	51

44. HBRC determined that 80% 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 general funds.
45. Managing appeals and objections on resource consents are a statutory obligation of Council. While all costs are attempted to be recovered in the process these cannot be guaranteed and so HBRC treated this activity as 100% public cost funded through the use of general funds.
46. HBRC determined that 80% 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 general funds.
47. 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 funds.
48. 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 general funds.
49. Hazard Waste / Substance Management is a full public benefit project funded by through general funds as this is an incentive for the public to dispose of hazardous substances appropriately
50. 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
51. 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 funds.

Group of Activity: Emergency Management								
Sub -Activity	**Further Analysis**	**Previous Policy**		**Proposed Policy**		**Funding Tools**		**Notes**
		Public	Private	Public	Private	Public	Private	
Hazard Assessment and Response	Response Management	100%	Nil	100%	Nil	General Funds	Nil	52
HB Civil Defence Emergency Management Group	Reduction – Hazard Identification and Mitigation	Nil	100%	Nil	100%	Nil	Targeted Rate as a fixed annual charge	53
	Readiness and Response	Nil	100%	Nil	100%	Nil	Targeted Rate as a fixed annual charge	53
	Recovery and Co-ordination	Nil	100%	Nil	100%	Nil	Targeted Rate as a fixed annual charge	53
	Local Emergency Management	Nil	100%	Nil	100%	Nil	Targeted Rate as a fixed annual charge	53

52. 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 general funds.
53. The Hawke's Bay Civil Defence Emergency Management Group (CDEM) is responsible for providing effective Civil Defence Emergency Management within its area consistent with the Civil Defence Emergency Management Act 2002. The CDEM 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 CDEM area is reflective of the boundaries of the member TLA Councils. The Hawke's Bay Regional Council is the administrating authority for the CDEM. The CDEM 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 CDEM area. As of the 2018/19 financial year all of the local TLAs have confirmed that they will no longer rate for Local Emergency Management and that this will be included in the HBRC rate.

Revenue and Financing Policy Group of Activity: Transport								
Sub -Activity	Further Analysis	Previous Policy Public	Private	Proposed Policy Public	Private	Funding Tools Public	Private	Notes
Regional Road Safety		15%	95%	9-12%	91-88%	General Funds	Govt. Grants and Territorial Authority Grants	54
Regional Land Transport Strategy		47%-49%	51%-53%	48%-51%	52%-49%	General Funds	Govt. Grants	55
Subsidised Passenger Transport		Nil	100%	Nil	100%	Nil	Govt. Grants/Differential Rate & Fees/Charges	56
Regional Cycling Activity		35-50%	65-50%	35-50%	65-50%	General Funds	Territorial Authority Grants	57

54. 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 9%-12% of the total Regional Road Safety funding. The remaining funding stems from contractual agreements with the New Zealand Transport Agency (91% - 88%) with the balance provided by the Hawke's Bay Local Territorial Authorities and other Government Agencies. The 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 general funds.
55. 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 (52% -49%) towards the costs of undertaking this activity, with this contribution treated as a form of private user subsidy. The remaining 48% 51% is treated as a public benefit and funded through the use of general funds.
56. 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.
57. The Regional Cycling Activity has been setup to provide support the regional cycling sector and promote our cycle pathways. This project is partially funded up to 65% by external funders with the residual funded as a public benefit through the use of general funds.

Revenue and Financing Policy Group of Activity: Governance and Community Engagement								
Sub -Activity	Further Analysis	Previous Policy		Proposed Policy		Funding Tools		Notes
		Public	Private	Public	Private	Public	Private	
Community Partnerships	Tangata Whenua Engagement	100%	Nil	100%	Nil	General Funds	Nil	58
	Community Engagement & Comms	100%	Nil	100%	Nil	General Funds	Nil	58
	Enviroschools	82% -78%	18% - 22%	82% -78%	18% - 22%	General Funds	Grants	59
Community Representation and Regional Leadership		100%	Nil	100%	Nil	General Funds	Nil	60
Investment Company Support		Nil	100%	Nil	100%	Nil	Fees/Charges	61

58. HBRC considers that the main objective of Tangata Whenua and Community 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 general funds.
59. Enviroschools is the HBRC in school environmental education programme. This is partially funded through grants with the residual funded by use of regional funds.
60. This function relates to the costs of elected political representation (including the Maori Committee) as well as the costs of reporting to the community, and is assessed 100% as a public benefit and met by general funds.
61. 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.