



Meeting of the Hawke's Bay Regional Council

LATE ITEMS

Date: Wednesday 30 August 2017
Time: 10.15am
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

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16.	Ruataniwha Water Storage Scheme Financial Treatments	3

HAWKE'S BAY REGIONAL COUNCIL

Wednesday 30 August 2017

Subject: RUATANIWHA WATER STORAGE SCHEME FINANCIAL TREATMENTS

Item 16

Reason for Report

1. To enable Council to decide on an acceptable approach to the shareholder advance with HBRIC Ltd to incorporate into the HBRC and HBRIC Ltd 2016-17 annual reports.
2. The HBRIC Ltd and HBRC annual reports are due for audit sign off and Audit NZ requires comfort on the value of both assets and liabilities in both entities' accounts related to the RWSS as well as HBRIC Ltd's ability to repay its debts and pay dividends as outlined in its Statement of Intent. Due to year end timelines, some urgency is required on this.

Background

3. Following the Supreme Court decision on the Department of Conservation land swap necessary for the construction of the proposed Ruataniwha Water Storage Scheme dam reservoir, uncertainty about when and if the scheme can progress has caused the value of the asset to come into question.
4. HBRIC Ltd have been investigating various options on the best treatment for the holding value of these assets and have developed the following recommendations.

HBRIC Ltd Advice

5. HBRC has a \$14m advance to HBRIC Ltd as a current asset on its balance sheet. Correspondingly, HBRIC Ltd has a \$14m liability owing to HBRC. The proposal is to write off the HBRC advances to HBRIC Ltd (made up of c.\$7m of journalled charges to HBRIC and c.\$7m cash advances) and the corresponding liability in HBRIC's financial accounts. This supports ongoing dividend flows to Council.
6. HBRIC Ltd also has an intangible asset of \$19.5m on its books which relates to the feasibility and development costs of RWSS. This was funded in part by the \$14m advance from HBRC, with the remaining \$5.5m funded by HBRIC via external debt.
7. Due to the uncertainty of when and if the scheme can proceed, the value of this intangible asset is in question and HBRIC is likely to write-down a material portion of the intangible asset value.
8. HBRIC Ltd is to maintain operational costs associated with RWSS and explore options to find a buyer to proceed with the scheme.
9. This proposal is subject to any further accounting and tax advice, which needs to be considered as part of the year-end audit process.

Ongoing costs and liabilities

10. Annual operational costs for RWSS to be "maintained" by HBRIC are in the quantum of approximately \$100,000 per annum, of which the majority of these costs relate to consents. There are assumed no compliance costs associated with this pre-construction. HBRIC Ltd will absorb these costs within their existing budgets.
11. There is a small possibility for contingent liabilities which may arise.

Decision Making Process

12. Council is required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 12.1. The decision does not significantly alter the service provision or affect a strategic asset.
 - 12.2. The use of the special consultative procedure is not prescribed by legislation.

- 12.3. The decision does not fall within the definition of Council's policy on significance.
- 12.4. The decision is not inconsistent with an existing policy or plan.
- 12.5. Given the nature and significance of the issue to be considered and decided, and also the persons likely to be affected by, or have an interest in the decisions made, Council can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision.

Recommendations

That Council:

1. Receives and notes the "Ruatanuiwha Water Storage Scheme Financial Treatments" staff report.
2. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted Significance and Engagement Policy, and that Council can exercise its discretion and make decisions on this issue without conferring directly with the community and persons likely to be affected by or to have an interest in the decision.
3. In light of the recent land swap decision, resolves to invest no further capital in the Ruatanuiwha Water Storage Scheme.
4. Resolves to write off the full \$14m debt owed by HBRIC Ltd to the Council.
5. Notes that HBRIC Ltd intends to write down the value of its intangible assets associated with the RWSS (final quantum to be determined).
6. Notes and supports HBRIC Ltd intention to continue to explore options for progressing the RWSS without further Council funding.

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Attachment/s

There are no attachments for this report.