Meeting of the Hawke's Bay Regional Council

Date: Wednesday 27 March 2019

Time: 10.15am

Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Attachments Excluded From Agenda

Facing OUR future 2018-28 LONG TERM PLAN

HAWKE'S BAY REGIONAL COUNCIL

Te Kaunihera ā-Rohe o Te Matau-a-Māui

Enhancing Our Environment Together. Te Whakapakari Tahi I Tō Tātau Taiao.

Amendment to Hawke's Bay Regional Council Long Term Plan (2018 – 2028)

Introduction

The 2018-2028 Long Term Plan was adopted on 27 June 2018. Later that same year, the Hawke's Bay Regional Council undertook an extensive community consultation around four options for the funding of significant investment in Port of Napier Limited (Napier Port). The Regional Council's preferred option was to offer shares to the public in an up to 49% stake in Napier Port via an Initial Public Offering (IPO) on the New Zealand Stock Exchange (NZX).

As this involved a decision to transfer the ownership or control of a strategic asset, the Regional Council was required to consult and then amend its LTP to explicitly provide for the possibility pf an IPO. The consultation was run concurrently with the consultation on the funding for Napier Port entitled "Our Port – Have you Say".

On 19 December 2018, the Regional Council voted to proceed with work towards a minority IPO. As a result, some additional amendments to the LTP (as originally consulted on) have been made in light of consultation feedback received and to reflect structural decisions made by Council following the December 2018 decision which sought further detailed work to be undertaken before a final decision on whether to proceed with an IPO would be taken. This includes explicitly providing for a new Council Controlled Organisation (CCO) as the new entity that would hold all the shares in Napier Port and which would offer shares in that new entity to the public.

Changes to the following sections of the LTP have been made as part of this amendment (detailed below, by section):

- Financial Strategy (Part 3)
- Forecast Financial Statements, Notes to the Financials, Financial Reporting Benchmarks, Funding Impact Statement (Part 6)
- Treasury Policy, Revenue and Financing Policy, Statement of Council Controlled Organisations, Significant Forecasting Assumptions (Part 7)

The need

Napier Port is facing major investment requirements as it is servicing a thriving regional economy and has become congested and constrained. Efficiency at Napier Port has started to be impacted and vessels are having to be routinely turned away due to lack of space.

Over the next decade Napier Port will require approximately $350 million of investment. The most pressing investment is in a new wharf, which is currently anticipated to cost approximately $142 million. This wharf needs to start construction in 2020 to be ready for use in 2022.

Over the last two years the Regional Council has investigated multiple funding possibilities. It has completed a robust capital structure review which looked at Napier Port funding in the context of the Council's broader capital structure.

On 15 October 2018, the Regional Council started a five-week-long consultation process around four options for the funding of Napier Port. The options all provided funding for Napier Port, allowing it to clear most of its $86 million debt position, thus enabling Napier Port to begin investing in its future. The Regional Council determined that Napier Port was not able to take on more debt for this investment as it would take Napier Port's debt position to imprudent levels.

The four options consulted upon included: selling shares in a minority stake in Napier Port via an IPO; leasing the Port operations to a private operator for up to 50 years; selling a minority stake in Napier Port to a cornerstone investment partner; or the Regional Council taking on more debt to provide funding to Napier Port and recovering the costs of that debt via rates.

Council's objectives for the funding were:

- Retain majority community ownership of Napier Port
- Secure the investment Napier Port requires
- Protect ratepayers from the costs of funding the development
- Diversify and de-risk the Council's investments to better protect ratepayers
- Retain exposure to the future financial performance of a growing strategic asset

Approximately 3,500 submissions were received from the people of Hawke's Bay, with over half of these favouring the Council's preferred option of a minority IPO. A minority IPO would provide funding for Napier Port's investment requirements, would mean ratepayers were not covering the costs, would diversify Council's investment portfolio and retain community ownership and control of Napier Port.

On 19 December 2018, the Regional Council resolved to proceed with further work towards a minority IPO but deferred final decisions on whether to proceed with the IPO to enable this further work to be undertaken. Consultation on establishing a Council Controlled Organisation (CCO) (one recommendation arising from the further work undertaken) as the new entity to hold all the shares in Napier Port and offer shares in that new entity to the public ran from 15 February to 11 March 2019.

Part 3 - Financial Strategy | Wāhanga 3 - Rautaki Pūtea

1. Introduction

1.1 Purpose

As required under section 101A of the Local Government Act, the purpose of this financial strategy is to facilitate prudent financial management by providing a guide for the council to consider proposals for funding and expenditure against. Furthermore, this strategy will endeavour to make transparent the overall effects of these strategies on HBRC's services, rates, debt and investments.

1.2 Context

The Financial Strategy informs and guides the assessment of funding and expenditure proposals outlined in the LTP. It brings together key aspects of other sections in the LTP to from a coherent strategy as illustrated below.

2. Key Goals and Outcomes

This Financial Strategy signals a step-change in Council activity, particularly in the areas of land and water to achieve real results on-the-ground at pace and at scale. This is in response to the challenge set by the Council's 2017-2021 Strategic Plan, which sets ambitious time-frames to achieve strategic goals in the following focus areas:

- Water quality, safety and certainty
- Smart, sustainable land use
- Healthy and functioning Biodiversity
- Sustainable Services and Infrastructure.

The Financial Strategy sets out the levers available to council to accelerate and scale-up activity and influence behavioural changes to achieve these goals. It is premised on front loading the current incremental activity to have a greater impact sooner.

Key levers include the council's funding mix (i.e. fees and charges, investment income, debt, external grant funding and rates), adjusting the balance of incentives and regulation, increasing internal capacity and its operating and capital expenditure.

This Financial Strategy includes an increase in debt funding for long term projects that provide intergenerational benefits. This includes new borrowing of $71M over ten years with a total outstanding loan balance of $38M by the end of the plan after repayments.

The investment strategy aims to maintain and grow investments for generating income to enable HBRC to help fund an aggressive programme of environmental enhancement projects. A new rating limit keeps rates at 50% or less of annual revenue. This is achieved through receiving income from revenue generating assets including an annual dividend from Hawke's Bay Regional Investment Company Limited (HBRIC Ltd) which is the majority owner of Napier Port.

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3. Key Considerations

3.1 Changes in population

Providing for population change in Hawke's Bay is not expected to have a significant impact on HBRC's operating and capital costs over the 10 year life of the plan.

The latest available statistics shows Hawke's Bay usually resident population at 164,000. It increased 1.5% on the year before, and 0.7% per annum on average over the past 10 years. This compares to the national increase of 2.1%, and 1.3% respectively (source: Infometrics, for year ending March 2016). To account for this growth, council has applied an increase of 0.25% in rateable properties each year of the plan.

The most significant growth is projected in the Heretaunga Plains of Hawke's Bay. According to the Heretaunga Plains Development Strategy (HPUDS), the number of residents around the Heretaunga Plains is projected to increase by over 10,000 in the next 30 years. HBRC is working collaboratively with Hastings and Napier councils to accommodate housing and business land needs of those urban communities, plus the associated infrastructural servicing.

3.2 Change in land use

Hawke's Bay's economy is largely a rural economy dominated by export orientated primary production including value added processing and is therefore exposed to significant environmental (e.g. climatic) and international market fluctuations.

In general, changes to higher value land use is limited in Hawke's Bay due to the availability of water to irrigate. One area of anticipated land use change is from hill country pasture to afforestation. In this plan, council is investing in a significant tree planting programme targeting the worst eroding land in the region. This complements a central government initiative to plant 1 billion trees per year. This initiative will have positive impacts on water quality, carbon sequestration and soil health.

Council will continue to monitor land use change to make sure it can respond in a timely manner to any adverse effects as a result of a change in land use. Some of the negative impacts of changing land uses could include:

- urban and residential expansion can result in the loss of land available for primary production
- increased demand for water for productive purposes
- water quality problems as a result of agricultural intensification
- impacts on soil health and erosion from increased productivity
- impacts on social and economic structures in rural areas.

3.3 Change in community values and expectations

There is increasing pressure on government (local and central) to deliver better environmental outcomes, faster. As a result central government has created new legal and rule-based instruments (such as the National Policy Statement for Freshwater, amongst others) that require HBRC to do more in certain areas. This plan proposes a range of land and water related initiatives to effect change at scale and pace to address increased community expectations. This package of initiatives is focussed on getting things done on-farm through a mix of incentives and regulatory backstops as needed. The package is designed to provide landowners with the knowledge, tools and resources to meet the required changes, ideally before nationally driven deadlines come into effect.

A recent ratepayer survey on willingness to pay indicated some ratepayers are prepared to spend more, particularly in the areas of waterways and aquifers, marine and native species and plants. This demand for additional work needs to be balanced against the community's ability to pay. The mean annual earnings in Hawkes' Bay in 2016 was $49,700, compared with $57,780 nationally (source: Infometrics, 2016). This balance is achieved through the prioritisation of work requirements, and the application of a robust Revenue and Financing Policy which effectively targets the costs of work to those who cause or benefit from the work undertaken.

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3.4 Napier Port Capital Structure

Council is the majority shareholder of Napier Port through the Hawke's Bay Regional Investment Company Ltd.

The Hawke's Bay economy continues to experience strong and local sustained economic growth, with diverse elements of the local economy contributing to this growth; agriculture, manufacturing and tourism being three primary economic drivers.

Napier Port is facing significant growth in cargo volumes, over the last two years (2016-18) cargo volumes through the Port increased by 25% and are forecast to increase by a further 26% over the next decade.

Additionally, the volume of cruise ships visiting the Port is forecast to increase by a third, with larger vessels increasingly visiting an already congested Port.

Major assets of the Port are now approaching 100 years old – the end of their operational lives. Operational efficiency is already starting to be compromised by Port congestion as vessels are shifted to let others in and out.

Napier Port has reached a tipping point in which it now needs to access further funds in order to enable the Port to continue to meet growing demand. The Port needs approximately $350 million of investment over the next decade. A new wharf is the first step in this investment programme and cost approximately $142 million.

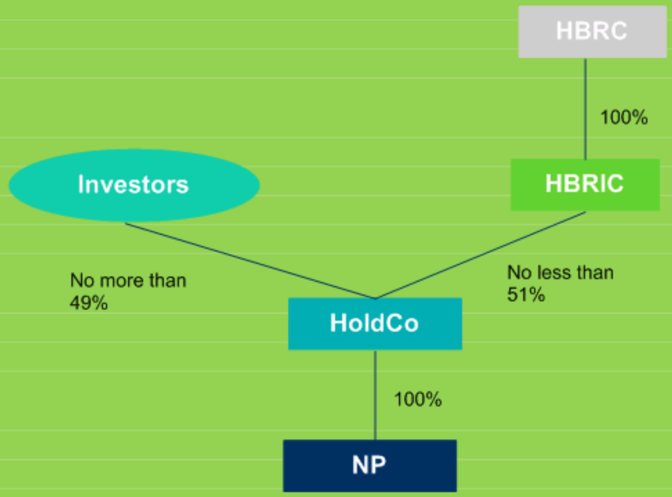
The Kaikoura and Christchurch earthquakes also highlight the risks to Council of having all its capital investment in one physical asset.

We think the best ownership structure to enable the growth of our Port is for Council to maintain majority ownership and float a minority stake in the Port on the New Zealand Stock Exchange. Majority ownership and control of Napier Port is to remain with Council (through appropriate investment structures), with no more than a 49% stake in Napier Port to be sold or diluted in the future, unless further special consultation is conducted. It is proposed that the initial sell-down would be no less than 33% and no more than 45%. This LTP assumes a transaction date of 1 July 2019 in year two.

After the Port's $86.6 million of current debt has been cleared, and sales costs deducted, it is forecast $83 million would be available for Council to invest in managed funds.

Both the increasing financial demands on Council and the risks of having 'all its eggs in one basket' have necessitated a re-think on how Council attracts external capital investment to fund its core responsibilities to the environment, economy and community.

The LTP proposes a sale of a stake in the Port of up to 49% through a minority IPO. The listing structure would likely involve establishing a newly incorporated subsidiary company of HBRIC Ltd that would become the holding company of the Port, and would be the listed company (**HoldCo**). Although this LTP references floating a minority stake in Napier Port, these references should be read as including floating an up to 49% stake in the Port's holding company (in the alternative). The final structure following conclusion of an IPO is likely to be as follows:



The numbers in this financial strategy are modelled on a sale of 45% of the shares in the new holding company.

Dividends received from Napier Port are modelled and forecast on a sale of 45% of the shares in the new holding company with HBRIC Ltd retaining 55% ownership from year 2 of the LTP. Capital released from the IPO will be invested to produce a return, which

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combined with forecast dividends more than offsets the previous forecast dividends under the 100% ownership model. Returns over and above original expectations will be retained in a reserve fund to protect against income volatility.

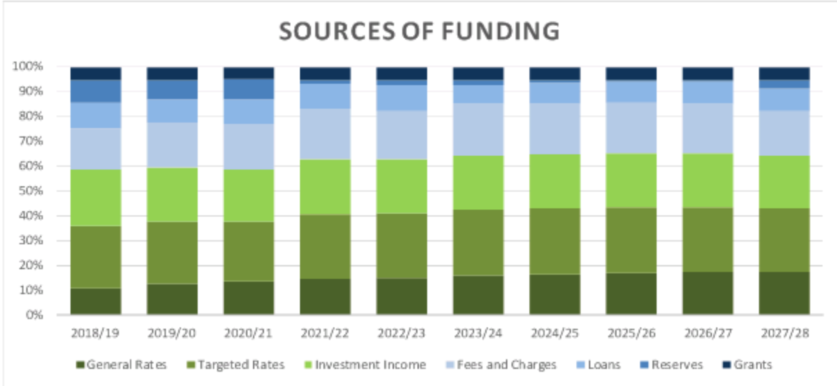
4. Funding

4.1 Funding Sources

HBRC activities are funded by a diverse mix of funding sources, including:

- General Rates
- Targeted Rates
- Investment Income
- Fees and Charges
- Loans
- Reserves
- Grants.

The funding mix over the period of the LTP is shown below.



The challenge for HBRC is to provide funding for its new strategic agenda, specifically in the areas of sustaining natural resources – e.g. water, land management and biodiversity whilst maintaining returns from HBRC's investment portfolio at a level which sustains a balanced operating budget.

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4.1 Fees and charges

Fees and charges provide around 20% of the annual funding requirement of HBRC. The 2018-28 LTP includes a move towards charging more directly to those using our services. Both consents and compliance are now 80% chargeable to the consent holders up from the 60% and 70% respectively in previous years. Section 36 of the RMA allows regional councils to charge consent holders for their science activity. HBRC has continued with the 35% recoverable charges from consent holders in this area but has proposed to change the current zone based charging system to a more equitable split of 40% variable by consent type zone charging, 40% variable by consent type regional charges and 20% fixed charges.

4.2 Investments

HBRC has historically been able to keep general rates at a minimum as they are subsidised by investment income effectively providing these returns back to the regional community.

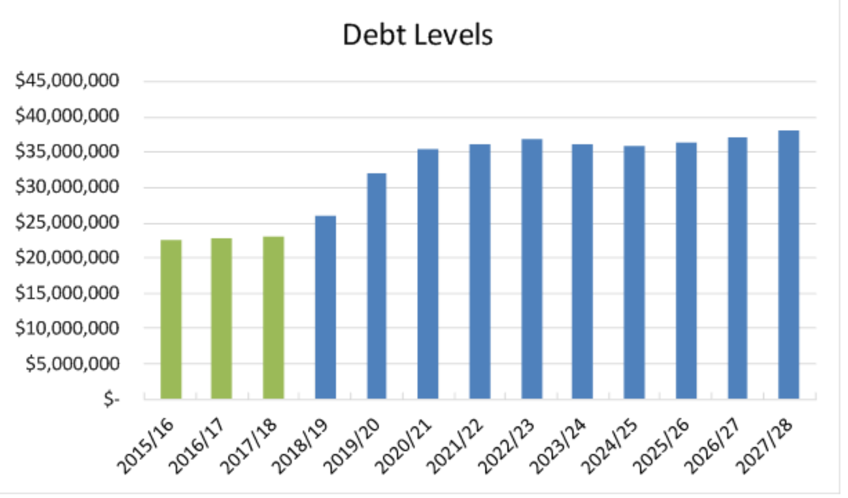
A significant portion of investment income is derived from HBRC's investment in HBRIC Ltd which owns Napier Port. This ownership has been at 100% but is proposed to be no less than 51% under a IPO arrangement from year 2 of the LTP. Other investment income includes leasehold income, forestry income, managed funds and cash on term deposit.

4.3 Debt

HBRC has historically had very low external debt. The 2018-28 LTP has focused on leveraging the balance sheet by borrowing more for larger long term projects that provide intergenerational benefits. These include new borrowing for integrated catchment management programmes for FEMPs, riparian planting and afforestation, sustainable homes, system integration software and capital expenditure.

HBRC has considered the timing of the programmes and the associated borrowing required to ensure that this best meets the needs of current and future generations.

The debt levels stated below are set as such to enable HBRC to maintain the present levels of service and to meet the increased levels of service proposed in this Plan.



Limits on Debt

HBRC has two debt affordability limits which must be complied with:

- Net external debt as a percentage of total revenue must be under 150%
- Net Interest on external debt as a percentage of annual rates income must be less than 20%

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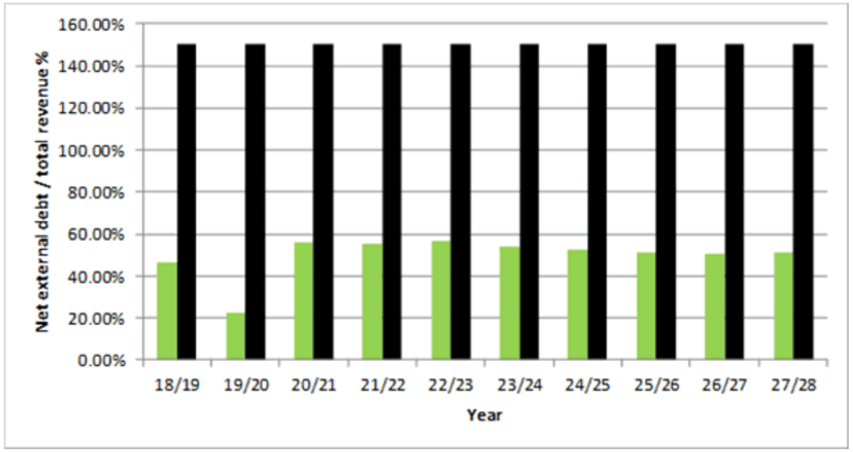
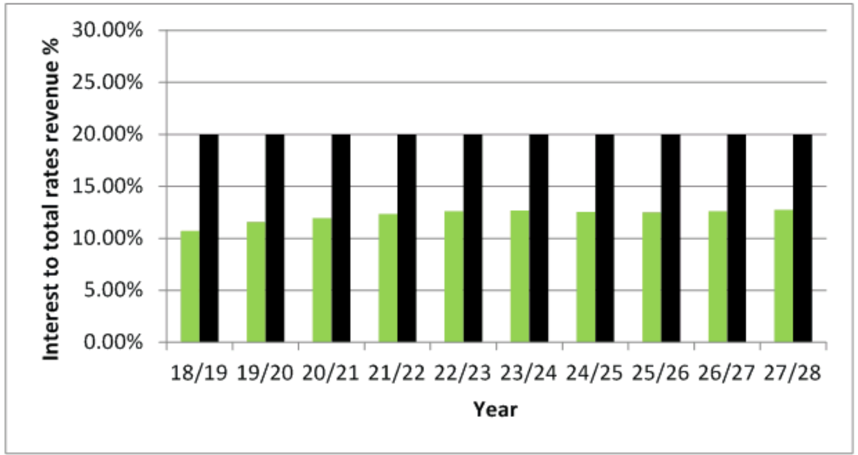
The graphs below show the proposed limits on debt for the 2018-28 LTP





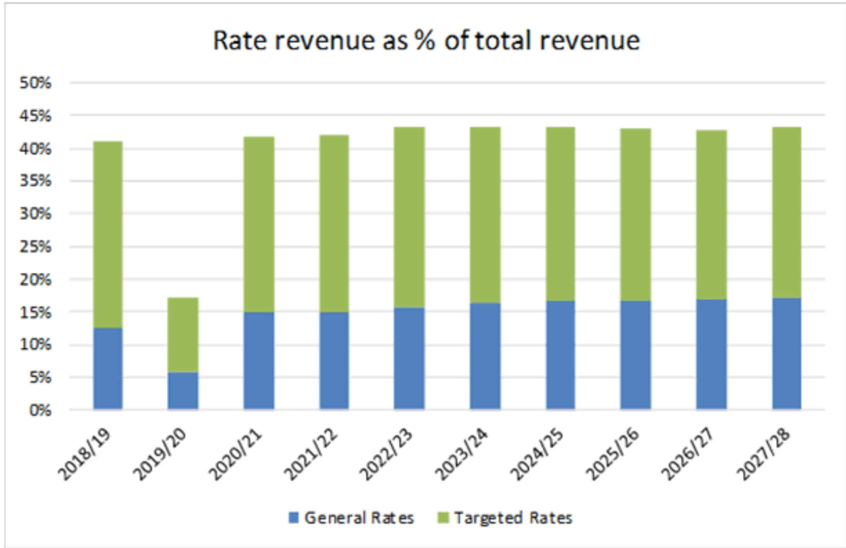
4.4 Rates

The balance of HBRCs funding requirements are provided by general rates. Rates are always the last alternative for funding operations due to the direct impact on the community.

Limits on Rates and Rate Increases

HBRC are has set the following limits in relation to its rate revenue:

- Total rates revenue will not exceed 50% of HBRCs annual revenue requirements
- Increases in the annual rate revenue requirement will not exceed 8% of HBRCs annual operating expenditure requirements



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Attachment 1

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4.5 Impact on Proposed HBRC Service Levels

HBRC is confident of its ability to provide and maintain existing levels of service and to meet additional demands for services included in the LTP within these limits.

4.6 Balanced Budget and Operating Surplus

HBRC have prepared an LTP balanced budget with no in built surplus. Any surplus shown in the statement of comprehensive revenue and expense is driven from non-cash transactions such as revaluations or income derived for capital transactions.

Rate Increases/(Decreases)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Rate increase excl. CDEM regional rate	14.2%	7.9%	7.3%	3.1%	3.3%	1.7%	2.8%	3.0%	3.3%	2.7%
CDEM regional rate	5.2%	-	-	-	-	-	-	-	-	-
Total rates increase from previous year	**19.4%**	**7.9%**	**7.3%**	**3.1%**	**3.3%**	**1.7%**	**2.8%**	**3.0%**	**3.3%**	**2.7%**

Financial Measures: Rate Forecasts

Rates ($000's)	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
General Rates	4,300	6,951	8,262	9,393	9,714	10,230	10,873	11,327	11,830	12,411	12,853
Total Targeted Rates	14,825	15,878	16,376	17,042	17,552	17,942	17,766	18,119	18,513	18,918	19,328
Total Rates	19,125	22,829	24,638	26,435	27,266	28,172	28,639	29,446	30,343	31,329	32,181

Projected Number of Rating Units

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Rating Units	71,408	71,586	71,765	71,944	72,124	72,304	72,485	72,666	72,848	73,030

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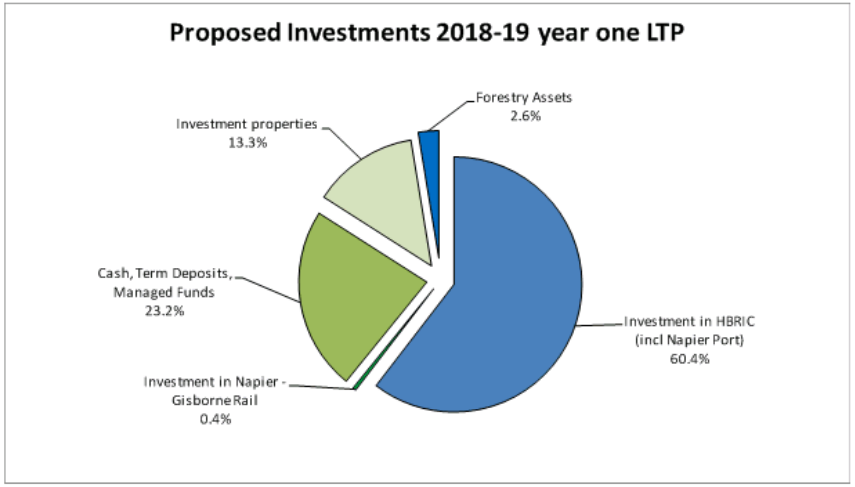
5. Investment Strategy

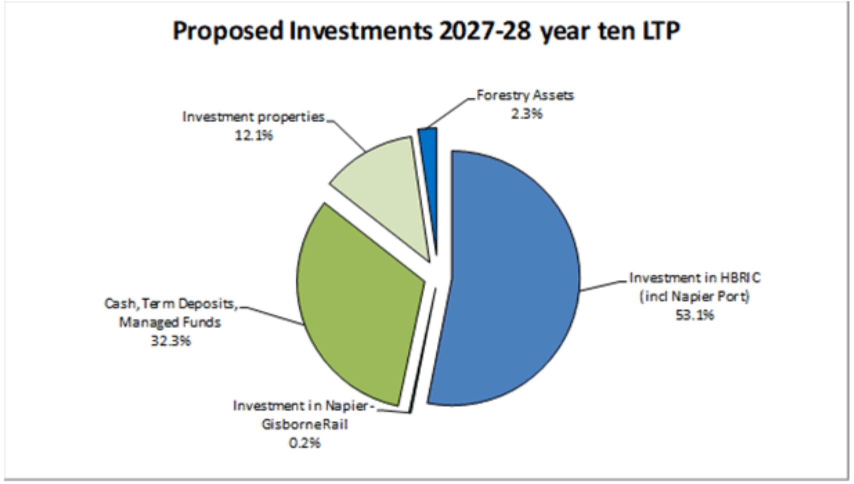
5.1 Financial Strategy for HBRC's Investment Portfolio

HBRC's strategic investment agenda for the 2018-28 LTP is to get the most out of the investments we do have and generate investment income to enable HBRC to help fund an aggressive programme of environmental enhancement projects.

The allocation of the current investment portfolio in year one of the LTP is shown below.



The allocation of the investment portfolio in year ten of the LTP is also shown. This gives a view of the improved diversification achieved through the change in ownership of Napier Port.



5.2 Investment Strategies/Economic Drivers/Value of Investment

HBRIC Ltd

HBRIC Ltd, the Council's investment company, commenced activities in February 2012. Its principal investment is 100% ownership of Port of Napier Limited (PONL), which owns and operates Napier Port. In this LTP it is proposed that in year 2 HBRIC reduces that holding to no less than 51% under a shared ownership structure. A reduction to 55% has been used for modelling and forecasting purposes.

From year 2 onwards Napier Port dividends are assumed to be 60% of the Port's Net Profit after Tax (NPAT), with HBRIC receiving **55**% of this.

Dividends payable to HBRC will be 100% of HBRIC Ltd's NPAT as stated in its Statement of Intent (SOI) for the year ending 30 June 2018.

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The following table summarises the significant forecasting assumptions in respect of HBRIC Ltd dividends.

Year	$'000
2018-19	10,000
2019-20	90,900
2020-21	8,000
2021-22	7,500
2022-23	7,200

Year	$'000
2023-24	7,500
2024-25	7,900
2025-26	8,600
2026-27	9,400
2027-28	9,700

Leasehold Properties

Napier

HBRC owns leasehold endowment property within and around Napier City. Ground rents paid by lessors have been predominantly set at 5% of current land value, or "fair annual ground rental" and reviewed every 21 years.

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. As the annual rents have been sold this LTP assumes that the income received will be paid out as an expense with a small margin to be kept by HBRC as an administration fee.

The underlying properties continue to be owned by HBRC and sales to lessors have continued, and may continue in the future, in the same way as they have done in the past. HBRC has invested these funds in investments specified in HBRC investment policy, and will continue to do so in respect of net proceeds, (after disbursements to ACC), of sales of freehold interests to lessors.

Wellington

HBRC holds a portfolio of 12 leasehold properties in Wellington which were purchased from the historic proceeds of the sale of Napier leasehold properties. These leases provide a return of $840,814 per annum with leases renewed every 14 years.

Forestry

HBRC has an existing forestry portfolio consisting of:

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

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

Tangoio forestry is treated differently from all the other forestry investment 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 HBRC operations.

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New Investment / Managed Funds

The previous LTP had proposed investment of up to $80 million into the RWSS project through HBRIC Limited. As at the end of June 2017 HBRC had advanced $15 million into the project. In the wake of a Supreme Court decision to rule against the land exchange needed to continue with the project, HBRC resolved to invest no further capital in the RWSS and write off the full value of the advance between HBRC to HBRIC Ltd.

The remaining $65 million was made up of $50 million cash funds and $15 million invested in Wellington Leasehold Property. It has been proposed to keep the Wellington Leasehold Property and the remaining $50 million which had been set aside for the project is now to be preserved and grown to provide investment income to help fund the increase to Council's operating activities.

Instead of keeping these funds on term deposit it is proposed to make these assets work harder and provide higher returns. This LTP assumes a return of 4.5% on the funds for the first year of the LTP when term deposits are being transferred and then a 5% return for the rest of the LTP.

There is an assumption that managed funds will also maintain a capital growth of 2% per annum.

In addition to the $50 million placed in year 1, it is forecast $83 million would be available in year 2 for Council to add to this managed fund following the floating of up to 49% of Napier Port on the New Zealand Stock Exchange.

Any income over those projections are to be transferred to Investment Income Equalisation reserve and will earn interest in line with interest on deposits stated above and will be used to cover market fluctuation risks

These investments may include any of the investment classes included in the investment policy.

Start Up Investments

Water Augmentation

The LTP proposes a $5 million fund to be available for water augmentation, not fixed to any particular scheme but available as a grant fund for technical investigation and feasibility.

Although there may be potential for future investment returns from water augmentation investment, these have not been factored into the LTP budgeting process as there needs to be more clarity in this area.

Napier – Gisborne Rail

The LTP proposes a commitment of $1.5 million in year one to support central Government's policy to reinstate the Napier-Wairoa rail line. No financial returns have been assumed over the next ten years as the final business case is not yet known.

5.3 Risks to Assumptions

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

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Council Investment Risks

Investments	Assumption	Risk to Assumption	Level of Uncertainty	Reasons and Financial Impact
HBRIC Ltd	Dividends will be paid to HBRC as scheduled	Napier Port financial performance falls short of its forecast or natural disaster reduces Napier Port capacity.	Medium	A substantial part of HBRC's regional income comes from HBRIC as the majority of HBRC's investment assets are held by HBRIC. Any diminution of dividends paid by HBRIC to HBRC will have a direct negative effect on HBRC's operating position. HBRIC's ability to pay dividends relies in the first instance on the profitability and dividend payments of Napier Port. For every $500,000 less in dividend received from HBRIC there will be a $500,000 higher rate required or debt increase.
Napier Port	The capital needs of the Napier Port will be meet through the float of up to a 49% minority stake in the Port on the New Zealand Stock Exchange	That the capital solution does not meet the full capital requirements of Napier Port and further investment and consultation may be needed.	Low	All entities involved with the transaction are confident that this is a long term solution to the Port capital needs. If there were unexpected capital needs then where the listed stake is less than 49% there is room for further dilution. This would reduce dividends payable to HBRIC and therefore through to HBRC. Or the Port could try and develop the new infrastructure themselves which would require reduced dividends with potentially large implications for the income of the Council. For every $500,000 less in dividend received from HBRIC there will be a $500,000 higher rate required or debt increase.
Port transaction timing	A transaction date of 1 July 2019	Delays would impact dividend levels and interest income	Low	If the transaction was delayed then the dividend levels should remain at the level stated in the original LTP as long as the Port can continue to operate effectively with a delayed Wharf 6. As the capital transaction only increases income HBRC should not be any worse off with a delay in the transaction.
Port transaction completion	That there is sufficient take up of the minority stake in the Port on the New Zealand Stock Exchange	If expectations are not meet HBRC can walk away from any transaction	Low	If the transaction was not completed then the Port would feel the need to try and develop the new infrastructure themselves which would require reduced dividends with large implications for the income of the Council. For every $500,000 less in dividend received from HBRIC there will be a $500,000 higher rate required or debt increase.
Port transaction tax	That there are no adverse tax implications from the transaction	Due to the complexity of the transaction there could be adverse tax costs that could lower the returns received by HBRC	Low	While tax considerations have been factored into the transaction, the complex nature of the transaction gives rise to a tax risk which could impact returns from dividends or funds available to invest.

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				For every $500,000 less in dividend received from HBRIC there will be a $500,000 higher rate required or debt increase.
Proportion of Sale	The LTP has been prepared on the basis of a 45% stake in the Port being sold but the Council reserves the right to move the percentage being floated in response to variables, including market conditions. The Council will float no more than 49% of the Port in order to protect a majority ownership position.	The financial modelling used in the LTP will move if the sale percentage changes.	Low	While the preferred option for sale has been modelled at 45% there is the possibility that this proportion needs to be adjusted (although to no higher than 49%). While this should only provide for more residual funds if adjusted up there is always a possibility that funding streams change. For every $500,000 less in dividend received from HBRIC there will be a $500,000 higher rate required or debt increase.
Corporate Structures	The Council retains the ability to establish the appropriate structures to manage the Port transaction and the Council's continued ownership position in the Port.	There is a possibility that Council would need to create new holding entities or corporate structures in order to provide the benefits assumed by this LTP.	Low	The current corporate structure with the Hawkes Bay Regional Investment Company Limited acting as a holding company for the Port may not provide the benefits assumed by this LTP so other structures may be required. There will be no financial impact to Council.
Wellington leasehold properties	Lease payments will continue as scheduled	Lessees unable to pay or natural disaster leaves land unleaseable	Low	A good part of HBRC's regional income comes from Wellington Leasehold lease payments. Any diminution of payments will have a direct negative effect on HBRC's operating position
Forestry Harvesting	Log prices remain stable over the period of the LTP.	Price for logs at harvesting is lower than forecast.	Low	Like all commodity markets timber is cyclical, however this risk can be managed by bringing forward or deferring harvesting in the short term but if prices continue to be low in the long term there may be less income than forecast.
Forestry - Manuka	Honey prices remain stable over the period of the LTP	Price for honey is lower than forecast.	Low	A small part of HBRC's regional income comes from honey sales.
Managed Funds	Revenue assumptions can be met each year	Investments and markets can fluctuate effecting income and capital value.	Medium	A diverse portfolio will be required to mitigate the risk of investment fluctuations as well as trying to build up a reserve to cover fluctuations. Managed funds held for investment are to be in the order of $133M in the first two years of this plan with capital growth of 2% thereafter. Therefore a 0.5% movement either up or down

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				from the assumed levels of returns in this plan would result in an annual exposure of plus or minus $665,000.
Water Augmentation	No returns assumed in the LTP period	No risk	Low	No downside financial impact. There may well be an upside if the investment can be turned into a commercial feasibly project.
NGR	No returns assumed in the LTP period	No risk	Low	No downside financial impact. There may well be an upside if the investment can be turned into a commercially feasible project.

Other Risks

Investments	Assumption	Risk to Assumption	Level of Uncertainty	Reasons and Financial Impact
Inflation	Inflation rates have been developed from BERL economic forecasts	Inflation is higher or lower than forecast	Medium	Inflation is affected by external economic factors, most of which are outside of HBRC's control and influence. The estimate of the potential effects of the uncertainty is best illustrated by stating that for 2019-20 a move in the cost adjustors provided by BERL and used in this plan by plus or minus 0.5% would result in either an under or over provision for external expenditure of $107,000 and for employment costs of $90,000 .
Interest Rates on Borrowings	Interest rates increase slightly over the term of the plan	Interest rates are higher or lower than forecast	Medium	The majority of the borrowing programme proposed in this plan is to provide funding to cover loans to homeowners for Sustainable Homes and for the Integrated Catchment Activities. The effect of any interest rate movements on the borrowing programme can best be illustrated by stating that a 0.5% movement either up or down from the assumed levels of interest rates in this plan would result in an annual exposure of plus or minus $17,000 for 2018-19 $224,000 for 2027-28 the last year of the plan.
Occurrence of Natural Disaster	No natural disasters	A natural disaster/flood event occurs which damages Council's property, plant and equipment	Medium	Call on commercial insurance, Local Authority Protection Programme and Government funding through the National Civil Defence Recovery Plan. The use of reserves is also available to HBRC as required.

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6. Infrastructure Assets

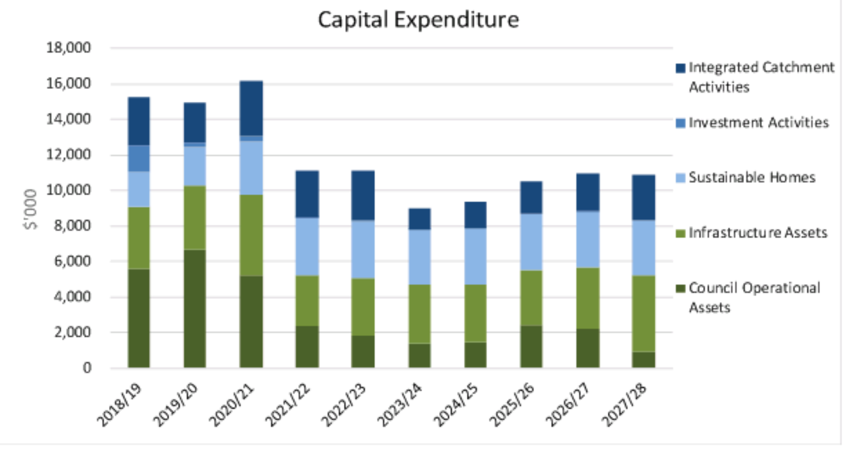
HBRC manages infrastructure assets through the 30 year Infrastructure Strategy (refer Part 4). The financial budgets incorporate the key issues and responses from this document.

Overall HBRC is satisfied that it can respond to the infrastructure needs within the budget and rating parameters set within this financial strategy.

7. Summary of Capital and Borrowing

Capital Expenditure

HBRC proposed to embark on a significant capital programme across the 10 years of this Plan, mainly as a result of the proposed activity in Sustainable Homes, Integrated Catchment Activities and the continued Infrastructure programmes. The graph below sets out the proposed capital expenditure activity across each year of the LTP.



The increase in Council Operational capital expenditure in years 1 to 3 are driven by building renewals, forecast accommodation requirements, science assets and computer system integration projects.

Infrastructure capital expenditure is relatively constant throughout the LTP and provides for the renewal of existing infrastructure as well as allowing for level of service increases for the Heretaunga Plains stop banks.

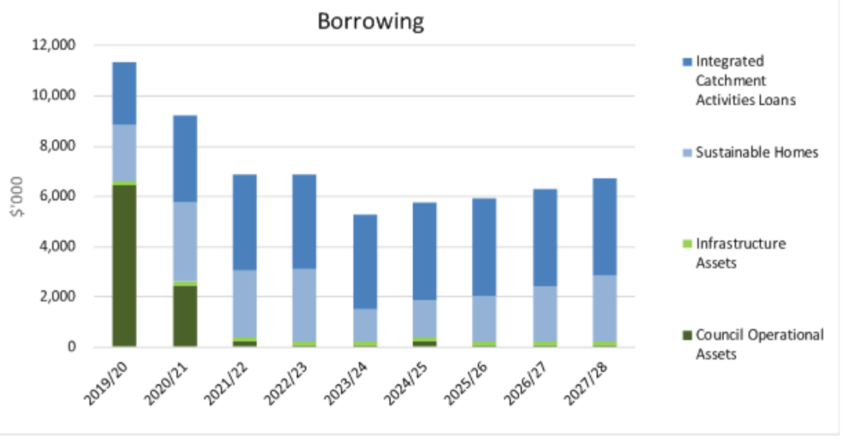
Community Loans include the Sustainable Homes programme and the Integrated Catchment Activities for Riparian planting and Afforestation

External Borrowings

This LTP has actively endorsed the use of increased borrowing in order to help achieve ambitious time bound strategic goals for water, land use, biodiversity and sustainable services and infrastructure.

HBRC proposes to borrow $71m over the 10 years of the Plan. Proposed budgets allow for the repayment of debt, so debt will grow from its current level of $23m to $38m over the life of the Plan.

The graph below analyses the proposed new borrowings of $71 million and the programmes to be funded.



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Debt Security

When HBRC undertakes external borrowing it does so under the Debenture Trust Deed which was established in October 2009.

Under the Debenture Trust Deed HBRC's borrowing is secured by a floating charge over all HBRC rates levied under the Rating Act, excluding any rates collected by HBRC on behalf of any other local authority. In such circumstances, the security offered by HBRC ranks 'Pari Passu' for all stock issues by HBRC including any security stock issued.

Under the Debenture Trust Deed HBRC offers deemed rates as security for general borrowing programmes. From time to time, with prior HBRC and Debenture Trustee approval, security may be offered by providing a charge over one or more of HBRC's assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset which it funds (such as an operating lease or project finance);
- HBRC considers a charge over physical assets to be appropriate;
- Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Trust Deed.

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8. Financial Metrics

The financial metrics that assist in the evaluation of HBRC's financial performance over the years of the Plan are set out in the table below.

	Year 1 2018/19	Year 2 2019/20	Year 3 2020/21	Year 4 2021/22	Year 5 2022/23	Year 6 2023/24	Year 7 2024/25	Year 8 2025/26	Year 9 2026/27	Year 10 2027/28
Net Surplus Margin	11.34%	66.17%	15.76%	17.27%	15.97%	16.63%	17.63%	18.59%	19.58%	19.60%
(This metric shows the percentage of income retained by HBRC to fund capital expenditure, to meet repayments on debt and/or set aside to meet future contingencies)										
Return on Investments	3.94%	20.93%	3.41%	3.46%	3.25%	3.06%	3.14%	3.27%	3.16%	3.21%
(This metric shows the percentage of income retained by HBRC to fund capital expenditure, to meet repayments on debt and/or set aside to meet future contingencies)										
Rates to Total Revenue	44.39%	17.61%	44.91%	45.11%	46.72%	46.51%	46.57%	46.42%	46.23%	46.63%
(This metric shows the percentage of HBRC's total revenue that is collected through rates).										
General Rates to Total Rates	30.45%	33.53%	35.53%	35.63%	36.32%	37.97%	38.46%	38.99%	39.62%	39.94%
(This metric shows the percentage of HBRC's total rates revenue that is collected through general rates).										
Capex to Total Cash Payments	11.27%	6.28%	12.36%	7.35%	7.10%	6.72%	6.68%	7.64%	7.59%	6.78%
(This metric shows the proportion of total cash payments that has been spent on fixed assets).										
Total Finance Expense to Operating Expenditure	4.92%	5.53%	5.85%	6.17%	6.41%	6.46%	6.47%	6.51%	6.58%	6.71%
(Interest on Borrowings and payments to ACC for leasehold cashflows)										
Interest Expense on Bank Loans to Operating Expenditure	2.67%	3.16%	3.48%	3.72%	3.90%	3.99%	4.06%	4.16%	4.23%	4.36%
(Interest in Borrowings only)										
Debt to Debt plus Equity	7.13%	6.84%	6.69%	6.53%	6.31%	5.71%	5.52%	5.29%	4.93%	4.89%

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Forecast Financial Statements

Prospective Statement of Comprehensive Revenue and Expense

Prospective Statement of Comprehensive Revenue and Expense	Note	Annual Report 2016/17 ($'000)	Annual Plan 2017/18 ($'000)	Year 1 LTP 2018/19 ($'000)	Year 2 LTP 2019/20 ($'000)	Year 3 LTP 2020/21 ($'000)	Year 4 LTP 2021/22 ($'000)	Year 5 LTP 2022/23 ($'000)	Year 6 LTP 2023/24 ($'000)	Year 7 LTP 2024/25 ($'000)	Year 8 LTP 2025/26 ($'000)	Year 9 LTP 2026/27 ($'000)	Year 10 LTP 2027/28 ($'000)
REVENUE													
Revenue from activities	1	6,532	7,000	9,198	9,925	10,739	10,978	10,645	10,899	11,046	11,226	11,407	11,092
Revenue from rates	2	17,661	19,124	22,829	24,639	26,435	27,267	28,169	28,639	29,448	30,342	31,328	32,180
Revenue from grants		5,459	3,630	3,368	3,430	3,480	3,545	3,612	3,687	3,759	3,841	3,926	4,011
Other revenue	3	15,601	15,424	16,029	101,946	18,203	18,657	17,865	18,347	18,978	19,957	21,102	21,730
Fair value gains on investments	7(a)	7,835	1,737	3,195	3,315	3,502	3,642	3,834	4,032	4,243	4,462	4,699	4,942
Reduction in ACC Leasehold Liability		-	1,035	917	936	917	896	873	814	756	706	678	647
Total Operating Revenue		**53,088**	**47,950**	**55,536**	**144,191**	**63,276**	**64,985**	**64,998**	**66,418**	**68,230**	**70,534**	**73,140**	**74,602**
EXPENDITURE													
Expenditure on activities	1	40,360	40,371	44,332	45,478	47,238	47,454	48,251	49,013	49,966	51,275	52,685	53,837
Finance costs	1	2,979	2,648	2,447	2,854	3,161	3,363	3,552	3,630	3,693	3,800	3,942	4,099
Depreciation & amortisation expense	5	2,659	2,739	2,925	3,259	3,599	3,726	3,569	3,536	3,425	3,308	3,247	3,137
Fair value losses		-	-	-	-	-	-	-	-	-	-	-	-
Other expenditure		2,043	-	-	-	-	-	-	-	-	-	-	-
Impairment		14,787	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenditure		**62,828**	**45,758**	**49,704**	**51,591**	**53,998**	**54,543**	**55,372**	**56,179**	**57,084**	**58,383**	**59,874**	**61,073**
OPERATING SURPLUS													
Operating Surplus Before Income Tax		**(9,740)**	**2,192**	**5,832**	**92,600**	**9,278**	**10,442**	**9,626**	**10,239**	**11,146**	**12,151**	**13,266**	**13,529**
Income tax expense		-	-	-	-	-	-	-	-	-	-	-	-
Operating Surplus After Income Tax		**(9,740)**	**2,192**	**5,832**	**92,600**	**9,278**	**10,442**	**9,626**	**10,239**	**11,146**	**12,151**	**13,266**	**13,529**
OTHER COMPREHENSIVE REVENUE AND EXPENSE													
Gain / (loss) in infrastructure assets		8	-	-	10,884	-	-	13,540	-	-	15,505	-	-
Gain / (loss) in revalued financial and intangible assets		529	37,077	-	(8,985)	38,303		-	44,340	-	-	51,329	-
Gain / (loss) in revalued managed funds		-	-	1,000	2,680	2,734	2,788	2,844	2,901	2,959	3,018	3,078	3,140
Gain / (loss) in revalued property, plant and equipment assets		19,104	-	1,436	-	-	2,051	-	-	1,967	-	-	1,915
Total Other Comprehensive Revenue and Expense		**19,641**	**37,077**	**2,436**	**4,579**	**41,037**	**4,839**	**16,384**	**47,241**	**4,926**	**18,523**	**54,407**	**5,055**
TOTAL COMPREHENSIVE REVENUE AND EXPENSE		**9,901**	**39,269**	**8,268**	**97,179**	**50,314**	**15,281**	**26,010**	**57,480**	**16,072**	**30,674**	**67,673**	**18,584**
STATEMENT FOR GENERAL FUNDING POSITION													
CAPITAL EXPENDITURE													
Property, plant, equipment & intangible assets	5	2,647	3,710	5,594	6,696	5,213	2,354	1,807	1,361	1,422	2,469	2,206	901
Infrastructure assets - flood & drainage		777	1,880	3,307	3,424	4,396	2,744	3,150	3,156	3,087	2,941	3,308	4,185
Infrastructure assets - open spaces & regional assets		544	-	160	160	160	160	160	160	160	160	160	160
Forestry assets		17	22	-	211	265	54	43	6	42	-	81	-
Community net lending from reserves		-	-	2,007	2,219	3,021	3,198	3,157	3,116	3,174	3,131	3,089	3,046
Sustainable homes net lending		1,922	1,258	911	168	963	104	246	(1,667)	(1,432)	(1,091)	(640)	553
Investments in regional investment company		(16,002)	67,666	-	-	-	-	-	-	-	-	-	-
Advances to Napier / Gisborne rail		38	91	1,500	-	-	-	-	-	-	-	-	-
Public debt repayments	4(a)	3,720	3,873	4,252	5,165	5,904	6,235	6,087	6,130	5,818	5,634	5,576	5,601
Total Capital Expenditure		**(6,337)**	**78,500**	**17,731**	**18,043**	**19,922**	**14,849**	**14,650**	**12,262**	**12,271**	**13,244**	**13,780**	**14,446**
RESERVE AND PUBLIC DEBT FUNDING													
Reserves funding	6	5,523	67,370	8,867	(81,666)	5,812	2,087	2,850	1,581	350	324	(403)	(220)
Public debt funding	4(a)	4,000	11,241	7,010	11,362	9,250	6,859	6,882	5,289	5,773	5,937	6,295	6,725
Leasehold annuity funding		-	-	-	-	-	-	-	-	-	-	-	-
Fair value gains on investments	7(a)	(7,835)	(1,737)	(3,195)	(3,315)	(3,502)	(3,642)	(3,834)	(4,032)	(4,243)	(4,462)	(4,699)	(4,942)
Fair value gains on other comprehensive income		(19,641)	(37,077)	(2,436)	(4,579)	(41,037)	(4,839)	(16,384)	(47,241)	(4,926)	(18,523)	(54,407)	(5,055)
Reduction in ACC Leasehold Liability		1,270	(1,035)	(917)	(936)	(917)	(896)	(873)	(814)	(756)	(706)	(678)	(647)
Total Reserve & Loan Funding		**(16,683)**	**38,762**	**9,329**	**(79,135)**	**(30,393)**	**(431)**	**(11,360)**	**(45,217)**	**(3,801)**	**(17,429)**	**(53,892)**	**(4,139)**
UNDERLYING SURPLUS / (DEFICIT)	8	**(445)**	**(469)**	**(135)**	**1**	**(0)**	**0**	**1**	**1**	**(1)**	**0**	**1**	**(1)**

Part 6 - Financials | Wāhanga 6 - Pūrongo Pūtea

Forecast Financial Statements

Prospective Statement of Changes in Net Assets / Equity

Prospective Statement of Changes In Net Assets / Equity	Annual Report 2016/17 ($'000)	Annual Plan 2017/18 ($'000)	Year 1 LTP 2018/19 ($'000)	Year 2 LTP 2019/20 ($'000)	Year 3 LTP 2020/21 ($'000)	Year 4 LTP 2021/22 ($'000)	Year 5 LTP 2022/23 ($'000)	Year 6 LTP 2023/24 ($'000)	Year 7 LTP 2024/25 ($'000)	Year 8 LTP 2025/26 ($'000)	Year 9 LTP 2026/27 ($'000)	Year 10 LTP 2027/28 ($'000)
Net Assets / Equity at the Start of the Year	534,576	558,522	562,909	571,177	668,357	718,671	733,952	759,962	817,443	833,514	864,188	931,861
Total Comprehensive Revenue and Expense	9,900	39,269	8,268	97,179	50,314	15,281	26,010	57,480	16,072	30,674	67,673	18,584
	9,900	39,269	8,268	97,179	50,314	15,281	26,010	57,480	16,072	30,674	67,673	18,584
Net Assets / Equity at the End of the Year	**544,476**	**597,791**	**571,177**	**668,357**	**718,671**	**733,952**	**759,962**	**817,443**	**833,514**	**864,188**	**931,861**	**950,445**

Item 12

Attachment 1

Part 6 - Financials | Wāhanga 6 - Pūrongo Pūtea

Forecast Financial Statements

Prospective Statement of Financial Position

Prospective Statement of Financial Position		Annual Report 2016/17 ($'000)	Annual Plan 2017/18 ($'000)	Year 1 LTP 2018/19 ($'000)	Year 2 LTP 2019/20 ($'000)	Year 3 LTP 2020/21 ($'000)	Year 4 LTP 2021/22 ($'000)	Year 5 LTP 2022/23 ($'000)	Year 6 LTP 2023/24 ($'000)	Year 7 LTP 2024/25 ($'000)	Year 8 LTP 2025/26 ($'000)	Year 9 LTP 2026/27 ($'000)	Year 10 LTP 2027/28 ($'000)
ASSETS													
Non Current Assets													
Property, plant & equipment		21,270	21,873	24,120	27,329	29,539	30,846	29,959	28,625	29,479	28,751	28,346	29,078
Intangible assets		4,470	4,336	6,895	7,460	7,051	6,379	5,799	5,279	4,911	4,427	3,953	3,510
Infrastructure assets		172,234	176,499	176,268	190,110	194,002	196,242	212,428	215,033	217,569	235,464	238,169	241,751
Investment property		49,047	53,122	54,520	57,246	60,108	63,113	66,269	69,582	73,061	76,714	80,550	84,578
Forestry assets		9,769	8,357	10,589	10,404	11,303	11,259	11,975	12,695	13,496	14,299	15,238	16,147
Finance assets		10,331	16,703	71,331	156,010	158,743	161,530	174,373	177,272	180,232	183,250	186,327	189,464
Investment in council-controlled organisations		235,224	352,301	246,985	239,000	277,303	277,303	277,303	321,643	321,643	321,643	372,972	372,972
Advances to council-controlled organisations		-	1,666	-	-	-	-	-	-	-	-	-	-
Napier / Gisborne rail lease		201	254	1,701	1,701	1,701	1,701	1,701	1,701	1,701	1,701	1,701	1,701
Total Non Current Assets		502,546	635,111	592,409	689,260	739,750	748,373	779,807	831,830	842,092	866,249	927,257	939,202
Current Assets													
Inventories		35	93	35	35	35	35	35	35	35	35	35	35
Trade & other receivables		8,813	9,309	8,989	9,169	9,352	9,549	9,759	9,974	10,203	10,438	10,688	10,945
Finance assets		75,375	7,694	20,732	22,586	24,040	25,037	17,356	16,490	15,029	13,081	11,371	11,575
Advances to council-controlled organisations		-	-			-							
Cash & cash equivalents		10,261	11,322	3,900	7,676	8,558	14,036	16,264	20,983	27,509	35,626	44,102	51,075
Total Current Assets		94,484	28,418	33,656	39,466	41,985	48,657	43,415	47,482	52,776	59,180	66,196	73,630
TOTAL ASSETS		**597,030**	**663,529**	**626,065**	**728,726**	**781,735**	**797,031**	**823,222**	**879,311**	**894,868**	**925,429**	**993,453**	**1,012,831**
NET ASSETS / EQUITY													
Accumulated comprehensive revenue and expense	9	302,662	380,612	325,116	334,142	346,806	354,852	363,340	371,212	379,100	387,208	396,253	406,324
Fair value reserves	9	160,766	199,077	174,963	179,542	220,579	225,418	241,806	289,047	293,973	312,495	366,904	371,959
Other reserves	9	81,048	18,102	71,098	154,673	151,287	153,682	154,816	157,184	160,441	164,485	168,704	172,162
Total Net Assets / Equity		**544,476**	**597,791**	**571,177**	**668,357**	**718,671**	**733,952**	**759,962**	**817,442**	**833,514**	**864,188**	**931,861**	**950,445**
LIABILITIES													
Non Current Liabilities													
Borrowings		19,225	26,062	20,753	26,210	29,224	29,996	30,747	30,217	30,355	30,716	31,409	37,719
ACC Leasehold Liability		18,045	21,694	16,967	16,050	15,154	14,281	13,466	12,711	12,005	11,327	10,681	10,055
Provisions for other liabilities & charges		644	652	657	670	724	784	801	819	838	857	878	899
Total Non Current Liabilities		37,914	48,408	38,376	42,930	45,103	45,061	45,014	43,746	43,198	42,900	42,967	48,673
Current Liabilities													
Trade & other payables		9,248	10,319	9,433	9,622	9,814	10,020	10,241	10,466	10,707	10,953	11,216	11,485
Borrowings		3,640	4,171	5,165	5,904	6,235	6,087	6,130	5,818	5,634	5,576	5,601	414
ACC Leasehold Liability		775	1,169	936	917	896	873	814	756	706	678	647	625
Provisions for other liabilities & charges		977	1,672	977	997	1,016	1,038	1,061	1,084	1,109	1,134	1,162	1,190
Total Current Liabilities		14,640	17,330	16,512	17,438	17,962	18,018	18,246	18,123	18,155	18,341	18,625	13,713
Total Liabilities		**52,554**	**65,738**	**54,888**	**60,369**	**63,064**	**63,079**	**63,260**	**61,870**	**61,353**	**61,241**	**61,592**	**62,387**
TOTAL NET ASSETS / EQUITY AND LIABILITIES		**597,030**	**663,529**	**626,065**	**728,726**	**781,735**	**797,031**	**823,222**	**879,312**	**894,867**	**925,429**	**993,453**	**1,012,832**

Part 6 - Financials | Wāhanga 6 - Pūrongo Pūtea

Forecast Financial Statements

Prospective Cash Flow Statement

Prospective Cash Flow Statement

	Annual Report 2016/17 ($'000)	Annual Plan 2017/18 ($'000)	Year 1 LTP 2018/19 ($'000)	Year 2 LTP 2019/20 ($'000)	Year 3 LTP 2020/21 ($'000)	Year 4 LTP 2021/22 ($'000)	Year 5 LTP 2022/23 ($'000)	Year 6 LTP 2023/24 ($'000)	Year 7 LTP 2024/25 ($'000)	Year 8 LTP 2025/26 ($'000)	Year 9 LTP 2026/27 ($'000)	Year 10 LTP 2027/28 ($'000)
CASH FLOW FROM OPERATING ACTIVITIES												
Cash to be provided from:												
Receipts from customers	10,212	9,537	11,376	12,209	13,082	13,381	13,107	13,360	13,499	13,679	13,901	13,617
Rates	17,743	19,125	22,829	24,639	26,435	27,267	28,169	28,639	29,448	30,342	31,328	32,180
Dividends received	9,542	10,000	10,000	90,900	8,000	7,500	7,200	7,500	7,900	8,600	9,400	9,700
Interest received	2,967	2,620	3,297	7,702	7,808	7,972	8,151	8,334	8,573	8,852	9,156	9,453
Grants	5,412	3,630	3,368	3,430	3,480	3,545	3,612	3,687	3,759	3,841	3,926	4,011
Other income	360	266	554	1,060	52	782	52	52	52	52	52	52
GST	149											
	46,385	**45,178**	**51,424**	**139,940**	**58,857**	**60,447**	**60,291**	**61,572**	**63,231**	**65,366**	**67,763**	**69,013**
Cash to be applied to:												
Payments to suppliers	25,560	22,464	23,530	23,505	24,640	24,386	24,685	25,045	25,529	26,348	27,194	27,781
Payments to and behalf of employees	17,354	16,643	19,683	20,751	21,320	21,733	22,175	22,581	23,062	23,555	24,081	24,619
Finance expense	2,979	2,648	2,447	2,854	3,161	3,363	3,552	3,630	3,693	3,800	3,942	4,099
	45,893	**41,755**	**45,660**	**47,110**	**49,120**	**49,482**	**50,412**	**51,256**	**52,284**	**53,702**	**55,218**	**56,499**
Net Cash Flows from Operating Activities	**492**	**3,423**	**5,764**	**92,830**	**9,737**	**10,965**	**9,879**	**10,316**	**10,947**	**11,664**	**12,545**	**12,514**
CASH FLOWS FROM INVESTING ACTIVITIES												
Cash to be provided from:												
Disposal of property, plant & equipment	320	168	946	289	477	708	369	390	189	1,084	601	153
Disposal of investment properties	6,871	-	-	-	-	-	-	-	-	-	-	-
Disposal of financial assets	7,911	67,666	8,294	14,887	11,346	8,243	6,782	7,051	7,227	8,617	8,618	8,444
Receipts from sale of investments	-	-	-	-	-	-	-	-	-	-	-	-
Disposal of forestry assets	-	-	485	985	5	735	5	5	5	5	5	5
	15,102	**67,834**	**9,725**	**16,161**	**11,828**	**9,686**	**7,156**	**7,446**	**7,421**	**9,706**	**9,224**	**8,602**
Cash to be applied to:												
Purchase of property, plant & equipment	2,827	2,465	3,539	5,466	4,883	2,269	1,722	1,276	1,202	2,384	2,121	816
Purchase of intangible assets	1,243	1,245	2,055	1,230	330	85	85	85	220	85	85	85
Construction of infrastructure assets	855	1,880	3,467	3,584	4,556	2,904	3,310	3,316	3,247	3,101	3,468	4,345
Community lending	-	-	2,918	2,387	3,984	3,302	3,403	1,449	1,742	2,040	2,449	3,599
Purchase of financial assets	21,134	-	15,479	97,312	8,732	5,848	5,648	4,683	3,970	4,573	4,399	4,986
Forestry asset development	17	113	-	211	265	54	43	6	42	-	81	-
Purchase of investment properties	-	0	425	0	0	-	-	-	-	-	-	-
Advances to Investment Company	-	67,666	-	-	-	-	-	-	-	-	-	-
Napier / Gisborne rail	38	91	1,500	-	-	-	-	-	-	-	-	-
	26,114	**73,460**	**29,383**	**110,190**	**22,750**	**14,462**	**14,211**	**10,815**	**10,423**	**12,183**	**12,603**	**13,831**
Net Cash Flows from Investing Activities	**(11,012)**	**(5,626)**	**(19,658)**	**(94,029)**	**(10,923)**	**(4,775)**	**(7,055)**	**(3,369)**	**(3,002)**	**(2,477)**	**(3,378)**	**(5,229)**
CASH FLOWS FROM FINANCING ACTIVITIES												
Cash to be provided from:												
Loans drawn	4,000	11,241	7,010	11,362	9,250	6,859	6,882	5,289	5,773	5,937	6,295	6,725
Leasehold annuity	-	-	-	-	-	-	-	-	-	-	-	-
	4,000	**11,241**	**7,010**	**11,362**	**9,250**	**6,859**	**6,882**	**5,289**	**5,773**	**5,937**	**6,295**	**6,725**
Cash to be applied to:												
Loans repaid	3,720	3,873	4,252	5,165	5,904	6,235	6,087	6,130	5,818	5,634	5,576	5,601
Leasehold freeholding proceeds paid to ACC	7,289	1,264	1,119	1,222	1,279	1,335	1,391	1,387	1,375	1,373	1,409	1,437
	11,009	**5,137**	**5,372**	**6,387**	**7,182**	**7,570**	**7,478**	**7,517**	**7,193**	**7,007**	**6,985**	**7,038**
Net Cash Flows from Financing Activities	**(7,009)**	**6,104**	**1,638**	**4,975**	**2,068**	**(711)**	**(596)**	**(2,228)**	**(1,420)**	**(1,070)**	**(690)**	**(313)**
Net Increase / (Decrease) in Cash & cash equivalents	**(17,529)**	**3,901**	**(12,255)**	**3,776**	**882**	**5,478**	**2,228**	**4,719**	**6,526**	**8,117**	**8,477**	**6,972**
Opening cash & cash equivalents	27,790	7,422	16,155	3,900	7,676	8,558	14,036	16,264	20,983	27,509	35,626	44,102
Closing Cash & cash equivalents	**10,261**	**11,323**	**3,900**	**7,676**	**8,558**	**14,036**	**16,264**	**20,983**	**27,509**	**35,626**	**44,102**	**51,075**

Part 6 - Financials | Wāhanga 6 - Pūrongo Pūtea

Notes to the Financials

Notes 2 and 3 – Rates and Other Revenue

NOTES 2 & 3 - Rates & Other Revenue	Note	Annual Report 2016/17 ($'000)	Annual Plan 2017/18 ($'000)	Year 1 LTP 2018/19 ($'000)	Year 2 LTP 2019/20 ($'000)	Year 3 LTP 2020/21 ($'000)	Year 4 LTP 2021/22 ($'000)	Year 5 LTP 2022/23 ($'000)	Year 6 LTP 2023/24 ($'000)	Year 7 LTP 2024/25 ($'000)	Year 8 LTP 2025/26 ($'000)	Year 9 LTP 2026/27 ($'000)	Year 10 LTP 2027/28 ($'000)
Note 2: Rates													
General Funding Rates													
Uniform Annual General Charge (UAGC)		2,017	2,567	2,648	2,685	2,819	2,841	2,929	2,996	3,076	3,125	3,267	3,324
General Rate on Land Value		1,341	1,733	4,304	5,577	6,574	6,873	7,301	7,877	8,251	8,705	9,144	9,529
Total General Funding Rates		**3,358**	**4,300**	**6,952**	**8,262**	**9,393**	**9,714**	**10,230**	**10,873**	**11,327**	**11,830**	**12,411**	**12,853**
Targeted Rates													
Upper Tukituki Catchment Control Scheme		744	733	708	728	748	766	785	805	825	845	866	888
Separate Flood Control & Drainage Schemes		304	550	553	564	575	587	599	611	624	637	651	665
Wairoa Rivers & Streams Scheme		159	161	166	171	176	180	184	189	193	198	203	208
Central & Southern Areas Rivers & Streams Scheme		232	233	238	243	248	253	259	265	272	278	285	293
Heretaunga Plains Flood Control & Drainage Schemes		5,280	5,137	5,247	5,375	5,559	5,710	5,893	6,075	6,225	6,379	6,523	6,696
Biosecurity Schemes		1,681	1,707	1,830	1,986	2,182	2,365	2,394	2,416	2,438	2,461	2,485	2,510
Subsidised Public Transport		1,607	1,604	1,620	1,653	1,686	1,719	1,754	1,789	1,825	1,861	1,898	1,936
Clean Heat Administration Rate		585	583	583	583	583	583	583	-	-	-	-	-
Sustainable Land Management		660	742	783	878	983	1,002	1,015	1,034	1,044	1,065	1,091	1,107
Economic Development Rate		2,012	2,310	1,850	1,894	1,942	1,990	2,038	2,092	2,145	2,204	2,265	2,327
Coastal Erosion Rate				169	169	169	169	169	169	169	169	169	169
Emergency Management Uniform Annual Charge		1,039	1,063	2,130	2,133	2,191	2,229	2,266	2,321	2,361	2,415	2,481	2,528
Total Targeted Rates		**14,303**	**14,823**	**15,877**	**16,377**	**17,042**	**17,553**	**17,939**	**17,766**	**18,121**	**18,512**	**18,917**	**19,327**
Total Rates		**17,661**	**19,123**	**22,829**	**24,639**	**26,435**	**27,267**	**28,169**	**28,639**	**29,448**	**30,342**	**31,328**	**32,180**
Note 3: Other Revenue													
Dividends		9,542	10,000	10,000	90,900	8,000	7,500	7,200	7,500	7,900	8,600	9,400	9,700
Interest		2,806	2,620	3,297	7,702	7,808	7,972	8,151	8,334	8,573	8,852	9,156	9,453
Leasehold rents		2,751	2,538	2,178	2,284	2,343	2,403	2,462	2,461	2,453	2,453	2,494	2,525
Forestry income		17	126	526	1,032	52	782	52	52	52	52	52	52
Subvention payments		5	140	28	28	-	-	-	-	-	-	-	-
Napier - Gisborne Rail Returns		-	-	-	-	-	-	-	-	-	-	-	-
Other income		338	-	-	-	-	-	-	-	-	-	-	-
Net gain / (loss) on disposal of assets		142	-	-	-	-	-	-	-	-	-	-	-
Total Other Income		**15,601**	**15,424**	**16,029**	**101,946**	**18,203**	**18,657**	**17,865**	**18,347**	**18,978**	**19,957**	**21,102**	**21,730**

Part 6 - Financials | Wāhanga 6 - Pūrongo Pūtea

Notes to the Financials

Notes 6 & 7 – Reserve Movements and Fair Value Gains

NOTE 6 & 7 - Reserve Movements & Fair Value Gains	Note	Annual Report 2016/17 ($'000)	Annual Plan 2017/18 ($'000)	Year 1 LTP 2018/19 ($'000)	Year 2 LTP 2019/20 ($'000)	Year 3 LTP 2020/21 ($'000)	Year 4 LTP 2021/22 ($'000)	Year 5 LTP 2022/23 ($'000)	Year 6 LTP 2023/24 ($'000)	Year 7 LTP 2024/25 ($'000)	Year 8 LTP 2025/26 ($'000)	Year 9 LTP 2026/27 ($'000)	Year 10 LTP 2027/28 ($'000)
Note 6: Funding from Reserves													
Project Scheme Reserves		(584)	640	847	296	506	(5)	(87)	(473)	(897)	(1,012)	(442)	875
Investment Income Equalisation Reserve		353	29	-	(2,054)	(1,940)	(1,446)	(1,086)	(1,439)	(1,784)	(2,450)	(2,890)	(3,237)
Specific Regional Projects Reserve		-	-	-	-	-	-	-	-	-	-	-	-
Tangoio Soil Conservation Forestry Reserve		308	280	299	513	27	(302)	201	218	236	255	276	297
Asset Replacement Reserve		2,664	3,193	4,510	1,504	4,340	3,817	3,343	2,853	2,674	3,714	3,343	1,940
Infrastructure Asset Depreciation Reserve - Other Movement		606	(42)	1,133	1,254	2,109	187	535	618	490	277	(66)	612
Future Investment Fund		40	61,637	1,465	(83,600)	500	(250)	100	100	100	85	-	-
Sale of Land Non-Investment Reserve		289	1,442	939	800	664	546	341	248	121	86	56	20
Council Disaster Damage Reserves		986	(123)	(114)	(114)	(114)	(113)	(113)	(113)	(113)	(112)	(112)	(112)
Scheme Disaster Damage Reserves		(510)	(165)	(153)	(187)	(224)	(267)	(286)	(307)	(329)	(352)	(376)	(401)
Other Reserves		1,371	479	(59)	(80)	(56)	(81)	(98)	(124)	(148)	(167)	(192)	(215)
Total Net Funding from Reserves		**5,523**	**67,370**	**8,867**	**(81,666)**	**5,812**	**2,087**	**2,850**	**1,581**	**350**	**324**	**(403)**	**(220)**
Note 7a: Fair Value Gains from Investments													
Investment Property at beginning of year		**50,566**	**51,858**	**51,499**	**54,520**	**57,246**	**60,108**	**63,113**	**66,269**	**69,582**	**73,061**	**76,714**	**80,550**
Additions		-	-	425	0	0	-	-	-	-	-	-	-
Disposals		(6,871)	-		-	-	-	-	-	-	-	-	-
Movement during the year		**(6,871)**	**0**	**425**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Fair value gains (included in statement of comprehensive revenue and expense)		5,352	1,264	2,596	2,726	2,862	3,005	3,156	3,313	3,479	3,653	3,836	4,028
Investment Property at end of year		**49,047**	**53,122**	**54,520**	**57,246**	**60,108**	**63,113**	**66,269**	**69,582**	**73,061**	**76,714**	**80,550**	**84,578**
Note 7a: Fair Value Gains from Forestry Assets													
Forestry Assets at beginning of year		**7,309**	**7,771**	**10,475**	**10,589**	**10,404**	**11,303**	**11,259**	**11,975**	**12,695**	**13,496**	**14,299**	**15,238**
Additions		16	113	-	211	265	54	43	6	42	-	81	-
Disposals		-	-	(485)	(985)	(5)	(735)	(5)	(5)	(5)	(5)	(5)	(5)
Movement during the year		**16**	**113**	**(485)**	**(774)**	**260**	**(681)**	**38**	**1**	**37**	**(5)**	**76**	**(5)**
Fair value gains (included in statement of comprehensive revenue and expense)		2,444	473	599	589	640	637	678	719	764	809	863	914
Forestry Assets at end of year		**9,769**	**8,357**	**10,589**	**10,404**	**11,303**	**11,259**	**11,975**	**12,695**	**13,496**	**14,299**	**15,238**	**16,147**
Other fair value gains (included in the statement of comprehensive revenue and expense)		39	-	-	-	-	-	-	-	-	-	-	-
Total Fair value gains & losses (included in statement of comprehensive revenue and expense)		**7,835**	**1,737**	**3,195**	**3,315**	**3,502**	**3,642**	**3,834**	**4,032**	**4,243**	**4,462**	**4,699**	**4,942**

Part 6 - Financials | Wāhanga 6 - Pūrongo Pūtea

Notes to the Financials

Note 8 – Reconciliation to Underlying Surplus / (Deficit)

NOTE 8 - Reconciliation to Underlying Surplus / (Deficit)	Note	Annual Report 2016/17 ($'000)	Annual Plan 2017/18 ($'000)	Year 1 LTP 2018/19 ($'000)	Year 2 LTP 2019/20 ($'000)	Year 3 LTP 2020/21 ($'000)	Year 4 LTP 2021/22 ($'000)	Year 5 LTP 2022/23 ($'000)	Year 6 LTP 2023/24 ($'000)	Year 7 LTP 2024/25 ($'000)	Year 8 LTP 2025/26 ($'000)	Year 9 LTP 2026/27 ($'000)	Year 10 LTP 2027/28 ($'000)
Note 8: Underlying Surplus / (Deficit) Reconciliation													
Groups of Activities Underlying Surplus / (Deficits)													
[From Cost of Service Statements]													
Strategic Planning		(1,846)	(1,972)	(2,733)	(2,726)	(2,832)	(2,886)	(2,934)	(2,998)	(3,044)	(3,114)	(3,100)	(3,157)
Land Drainage and River Control		(4,708)	(3,068)	(3,000)	(3,022)	(3,079)	(3,211)	(3,260)	(3,350)	(3,417)	(3,529)	(3,820)	(3,940)
Regional Resources		(5,764)	(8,846)	(10,139)	(11,398)	(12,393)	(12,630)	(12,877)	(13,381)	(13,771)	(14,240)	(14,727)	(15,154)
Regulation		(3,008)	(1,994)	(1,680)	(1,791)	(1,845)	(1,880)	(1,908)	(1,944)	(1,969)	(2,015)	(2,067)	(2,101)
Biosecurity		-	-	-	-	-	-	-	-	-	-	-	-
Emergency Management		(5)	(130)	(149)	(150)	(154)	(153)	(154)	(156)	(157)	(157)	(161)	(159)
Transport		(79)	(118)	(173)	(182)	(173)	(181)	(187)	(197)	(204)	(211)	(223)	(231)
Governance & Community Engagement		(2,574)	(2,638)	(3,221)	(3,161)	(3,300)	(3,341)	(3,424)	(3,497)	(3,602)	(3,642)	(3,785)	(3,871)
Less Internal Expenditure & Income	1	186	182	177	181	185	188	192	196	200	204	208	212
Regional Income Collection	1	(2,121)	(1,765)	(1,461)	(1,537)	(1,719)	(1,709)	(1,672)	(1,671)	(1,666)	(1,672)	(1,740)	(1,776)
Fair Value Losses						0							
Total Groups of Activities Surplus / (Deficit)		**(19,919)**	**(20,349)**	**(22,379)**	**(23,786)**	**(25,310)**	**(25,803)**	**(26,224)**	**(26,998)**	**(27,630)**	**(28,376)**	**(29,415)**	**(30,177)**
Less Capital Expenditure													
[From Statement of Comprehensive Revenue and Expense]													
Capital Expenditure		(9,223)	(78,500)	(17,731)	(18,043)	(19,922)	(14,849)	(14,650)	(12,262)	(12,271)	(13,244)	(13,780)	(14,446)
Add Back:													
Capital Expenditure in Groups of Activities		7,317	7,838	11,656	12,538	15,779	14,023	14,541	13,069	13,140	13,259	14,045	15,471
Total Non-Groups of Activities Capital Expenditure		(1,906)	(70,662)	(6,075)	(5,505)	(4,143)	(826)	(109)	807	869	15	265	1,025
Plus General Funding													
Revenue from Rates	2	17,661	19,123	22,829	24,639	26,435	27,267	28,169	28,639	29,448	30,342	31,328	32,180
Other Revenue	3	15,601	15,424	16,029	101,946	18,203	18,657	17,865	18,347	18,978	19,957	21,102	21,730
Grants *[From Statement of Comprehensive Revenue and Expense]*		5,459	3,630	3,368	3,430	3,480	3,545	3,612	3,687	3,759	3,841	3,926	4,011
Loan Funding	4	4,000	11,241	7,010	11,362	9,250	6,859	6,882	5,289	5,773	5,937	6,295	6,725
Leasehold Annuity Funding		-	-	-	-	-	-	-	-	-	-	-	-
Less:													
Other Revenue in Groups of Activities		(25,444)	(23,819)	(26,478)	(27,453)	(30,298)	(31,252)	(31,950)	(30,660)	(31,514)	(32,348)	(33,172)	(33,322)
Other expenditure		-	(22)	-	-	-	-	-	-	-	-	-	-
Total Non-Groups of Activities General Funding		17,277	25,577	22,758	113,924	27,070	25,076	24,578	25,302	26,444	27,729	29,479	31,324
Plus / (Less) Reserves Funding													
[From Statement of Comprehensive Revenue and Expense]													
Reserves Funding	6	5,523	67,370	8,867	(81,666)	5,812	2,087	2,850	1,581	350	324	(403)	(220)
Less:													
Reserves Funding in Groups of Activities		(1,420)	(2,406)	(3,305)	(2,965)	(3,429)	(532)	(1,093)	(690)	(34)	308	75	(1,952)
Total Non-Groups of Activities Reserves & Loan Funding		4,103	64,964	5,562	(84,631)	2,383	1,555	1,757	891	316	632	(328)	(2,172)
Underlying Surplus / (Deficit)		**(444)**	**(470)**	**(135)**	**1**	**0**	**1**	**2**	**2**	**(1)**	**0**	**1**	**0**

Part 6 - Financials | Wāhanga 6 - Pūrongo Pūtea

Notes to the Financials

Note 9 – Council Reserve Funds

NOTE 9 - Council Reserve Funds	Accumulated Funds (1) ($'000)	Infra-structure Asset Renewal (2) ($'000)	Wairoa Rivers & Streams (3) ($'000)	Special Scheme (4) ($'000)	Investment Income Equal-isation (5) ($'000)	Coastal Marine Area (6) ($'000)	Asset Replace-ment (7) ($'000)	Regional Disaster Damage (8) ($'000)	Scheme Disaster Damage (9) ($'000)	Clive River Dredging (10) ($'000)	Tangoio Soil Conser-vation (11) ($'000)	Maunga-haruru Tangitu (12) ($'000)	Future Invmt Fund (13) ($'000)	Sale of Land Non-Invmt (14) ($'000)	Rabbit (15) ($'000)	Ngati-Pahawera (16) ($'000)	Total Other Reserves ($'000)	Fair Value Reserves (17) ($'000)
ANNUAL PLAN 2017/18																		
At 1 July 2017	377,414	701	878	4,406	158	-	1,535	2,197	3,562	450	3,157	313	63,037	926	65	-	**81,385**	162,000
Deposits in year	3,198	937	56	23,186	(29)	1,734	4,130	123	243	81	108	187	6,500	1,149	2	-	**38,407**	37,077
Withdrawals in year	-	(848)	-	(23,773)	-	(1,734)	(4,153)	-	-	-	(388)	(73)	(69,252)	(1,469)	-	-	**(101,690)**	0
At 30 June 2018	380,612	790	934	3,819	129	-	1,512	2,320	3,805	531	2,877	427	285	606	67	-	18,102	199,077
LONG TERM PLAN 2018-28																		
At 1 July 2018	312,100	1,900	907	4,271	-	-	495	2,384	3,409	898	2,990	351	59,944	666	68	-	**78,283**	172,527
Deposits	94,225	10,583	877	2,543	18,326	14,855	45,959	1,130	3,297	876	1,918	671	83,000	3,290	39	-	**187,363**	199,427
Withdrawals		(11,591)	-	(2,033)		(14,855)	(46,560)	-	-	(920)	(3,937)	-	(9,546)	(4,041)	-	-	**(93,483)**	0
At 30 June 2028	406,325	892	1,784	4,781	18,326	-	(106)	3,514	6,706	854	971	1,022	133,398	(86)	107	-	172,164	371,954

Related Activities to Reserve Funds Activities "√" denotes related activity	Accumulated Funds (1) ($'000)	Infra-structure Asset Renewal (2) ($'000)	Wairoa Rivers & Streams (3) ($'000)	Special Scheme (4) ($'000)	Investment Income Equal-isation (5) ($'000)	Coastal Marine Area (6) ($'000)	Asset Replace-ment (7) ($'000)	Regional Disaster Damage (8) ($'000)	Scheme Disaster Damage (9) ($'000)	Clive River Dredging (10) ($'000)	Tangoio Soil Conser-vation (11) ($'000)	Maunga-haruru Tangitu (12) ($'000)	Future Invmt Fund (13) ($'000)	Sale of Land Non-Invmt (14) ($'000)	Rabbit (15) ($'000)	Ngati-Pahawera (16) ($'000)	Total other Reserves ($'000)	Fair Value Reserves (17) ($'000)
Strategic Planning	√						√											
Land Drainage and River Control	√	√	√	√			√	√	√	√								√
Regional Resources	√			√			√				√	√	√	√				√
Regulation	√			√			√											
Biosecurity	√			√			√								√			
Emergency Management	√			√			√											√
Transport	√			√			√											
Governance & Community Engagement	√												√	√				
Regional Income Collection	√				√	√							√			√		√

Item 12

Attachment 1

Part 6 - Financials | Wāhanga 6 - Pūrongo Pūtea

Financial Reporting Benchmarks

LTP Disclosure Statement for period commencing 1 July 2018

What is the purpose of this statement?

The purpose of this statement is to disclose the council's planned financial performance in relation to various benchmarks to enable the assessment of whether the council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

The council is required to include this statement in its long-term plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

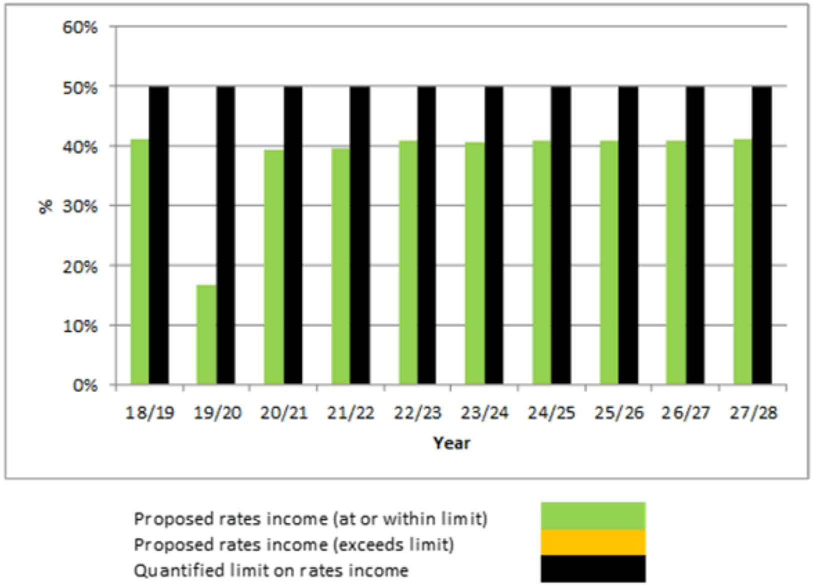
Rates Affordability Benchmark

The council meets the rates affordability benchmark if –

- its planned rates income equals or is less than each quantified limit on rates; and
- its planned rates increases equal or are less than each quantified limit on rates increases.

Rates Income Affordability

The following graph compares the council's planned rates with a quantified limit on rates contained in the financial strategy included in the long-term plan. The quantified limit is that total rates revenue will not exceed 50% of HBRCs annual revenue requirements. The graph uses percentage as unit of measurement.

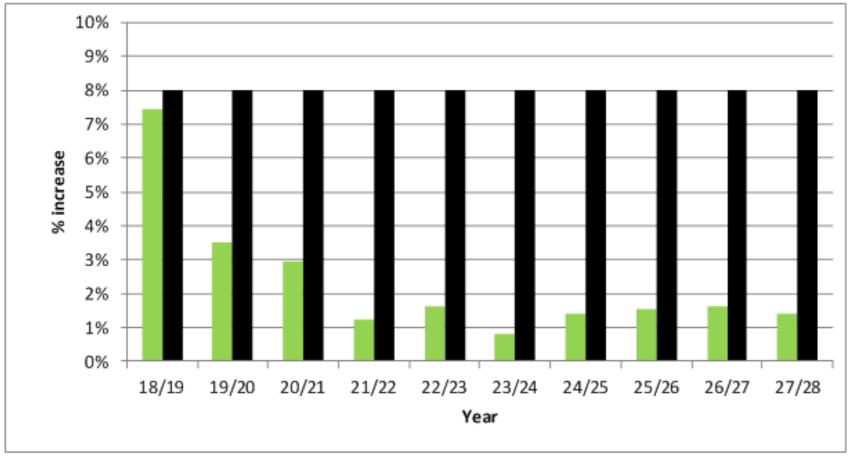


Part 6 - Financials | Wāhanga 6 - Pūrongo Pūtea

Financial Reporting Benchmarks

Rates Increases Affordability

The following graph compares the council's planned rates increases with a quantified limit on rates increases contained in the financial strategy included in the long-term plan. The quantified limit is that increase in the annual rate revenue requirement will not exceed 8% of HBRCs annual operating expenditure requirements. The graph uses percentage as unit of measurement.



Proposed rates increase (at or within limit)
Proposed rates increase (exceeds limit)
Quantified limit on rates income

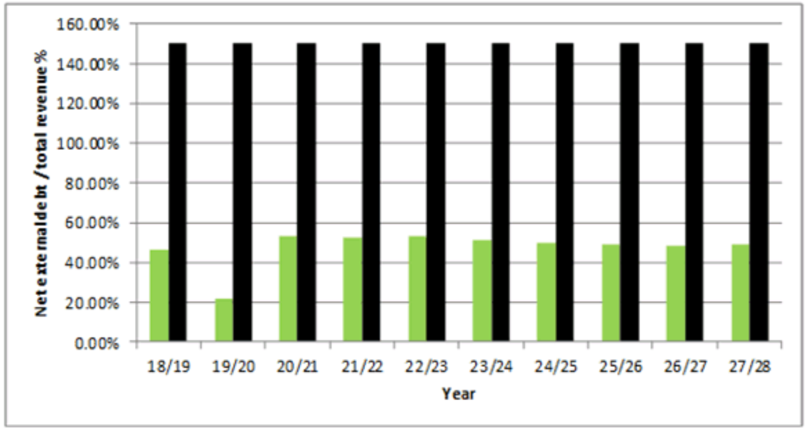
Debt Affordability

The council meets the debt affordability benchmark if its planned borrowing is within each quantified limit of borrowing.

The financial strategy included in Council's long term plan sets out two quantified limits on borrowing as below:

- Net external debt as a percentage of total revenue must be less than 150%.
- Net interest on external debt as a percentage of annual rates income must be less than 20%.

Borrowing Limit debt to total revenue ratio

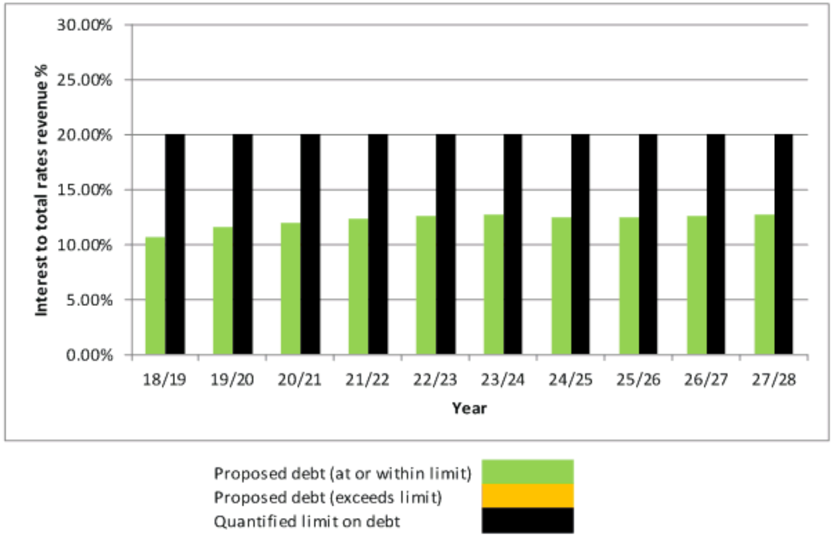


Proposed debt (at or within limit)
Proposed debt (exceeds limit)
Quantified limit on debt

Part 6 - Financials | Wāhanga 6 - Pūrongo Pūtea

Financial Reporting Benchmarks

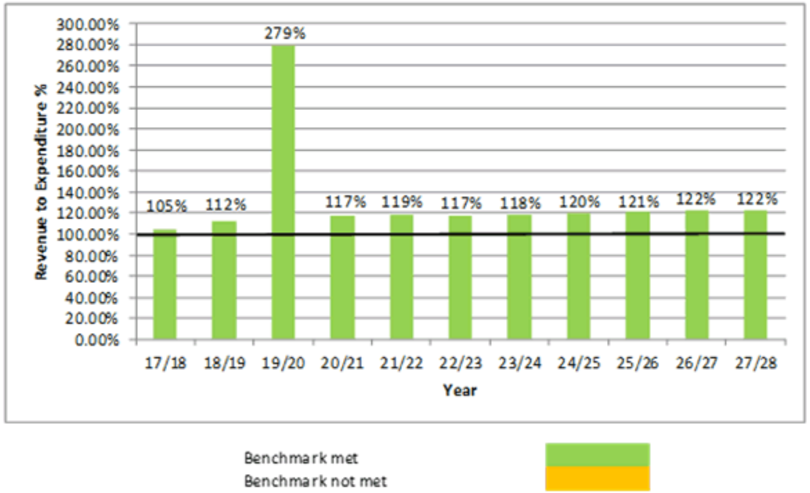
Borrowing Limit interest to annual rates income ratio



Balanced Budget

The following graph displays the council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant and equipment) as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant and equipment.

The council meets the balanced budget benchmark if its planned revenue equals or is greater than its planned operating expenses.



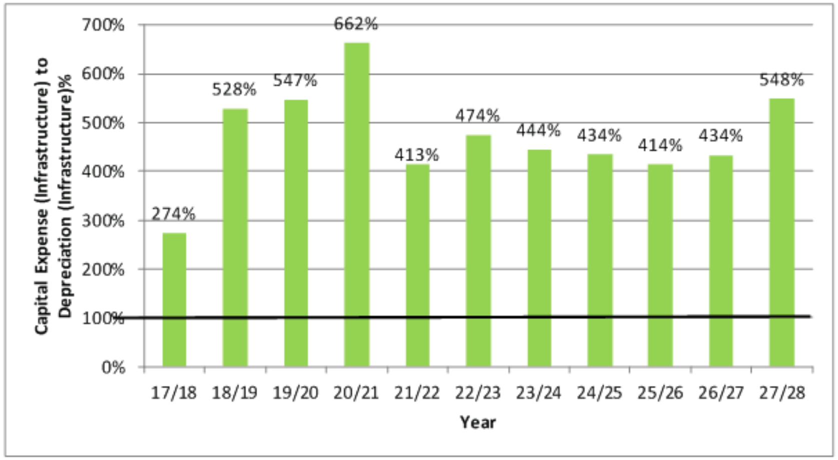
Part 6 - Financials | Wāhanga 6 - Pūrongo Pūtea

Financial Reporting Benchmarks

Essential Services

The following graph displays the council's planned capital expenditure on network services as a proportion of expected depreciation on network services.

The council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services - (NB: Council has only one network service and that covers the flood and drainage schemes).



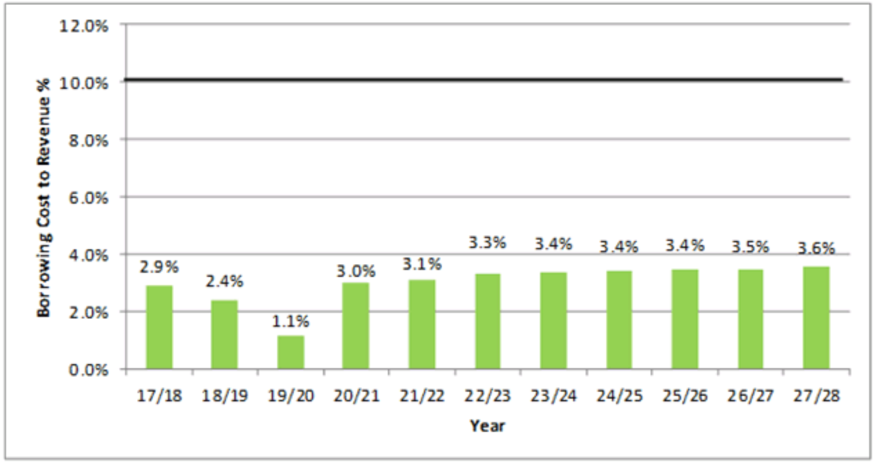
Benchmark met
Benchmark not met

Capital expenditure on flood protection and control works are funded by a combination of depreciation, reserve funding and borrowing for new assets. Not all infrastructure assets are depreciated as items such as stop banks do not drop in value.

Debt Servicing

The following graph displays the council's planned borrowing costs as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant and equipment).

Because Statistics New Zealand projects the council's population will grow more slowly than the national population is projected to grow, it meets the debt servicing benchmark if its planned borrowing costs are equal or less than 10% of its planned revenue.



Benchmark met
Benchmark not met

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Part 7 – Policies | Wāhanga 7 - Ngā Kaupapa Here

HBRC Funding Impact Statement

Hawkes Bay Regional Council: Funding Impact Statement for 2018-2028 (Whole of Council)	Annual Plan 2017/18 ('$000)	Year 1 LTP 2018/19 ($'000)	Year 2 LTP 2019/20 ($'000)	Year 3 LTP 2020/21 ($'000)	Year 4 LTP 2021/22 ($'000)	Year LTP 2022/ ($'00
Sources of operating funding						
General rates & uniform annual general charges, rates penalties	4,300	6,952	8,262	9,393	9,714	10,
Targeted rates	14,824	15,877	16,377	17,042	17,553	17,
Subsidies & grants for operating purposes	3,630	3,368	3,430	3,480	3,545	3,
Fees & charges	7,000	9,198	9,925	10,739	10,978	10,
Interest & dividends from investments	12,620	13,297	98,602	15,808	15,472	15,
Local authorities fuel tax, fines, infringement fees & other receipts	2,804	2,732	3,344	2,395	3,185	2,
Total operating funding	45,178	51,424	139,940	58,857	60,447	60,
Applications of operating funding						
Payments to staff & suppliers	40,371	44,332	45,478	47,238	47,454	48,
Finance costs	2,648	2,447	2,854	3,161	3,363	3,
Other operating funding applications	-	-	-	-	-	
Total applications of operating funding	43,019	46,779	48,332	50,399	50,817	51,
Surplus / (deficit) of operating funding	2,159	4,645	91,608	8,458	9,630	8,
Sources of capital funding						
Subsidies & grants for capital expenditure	1,538	1,882	2,345	2,626	3,134	3,
Development & financial contributions	-	-	-	-	-	
Increase / (decrease) in debt	7,368	2,758	6,197	3,346	624	
Gross proceeds from sale of assets	168	1,006	1,274	482	1,443	
Lump sum contributions	-	-	-	-	-	
Other dedicated capital funding	-	-	-	-	-	
Total sources of capital funding	9,074	5,646	9,816	6,455	5,201	4,
Applications of capital funding						
Capital expenditure:						
- to meet additional demand	3,016	435	2,160	3,160	160	
- to improve the level of service	1,865	2,090	2,080	2,195	2,476	2,
- to replace existing assets	3,506	6,536	6,251	4,679	2,676	2,
	8,387	9,061	10,491	10,034	5,312	5,
Increase / (decrease) in reserves	(64,932)	(4,970)	85,987	(2,001)	3,022	1,
Increase / (decrease) of investments	67,778	6,200	4,946	6,879	6,497	6,
Total application of capital funding	11,233	10,291	101,424	14,912	14,831	12,
Surplus / (deficit) of capital funding	(2,159)	(4,645)	(91,608)	(8,458)	(9,630)	(8,
Funding balance	0	0	0	0	0	
Reconciliation from Funding Impact Statement to Statement of Comprehensive Revenue and Expenditure						
Surplus / (deficit) of operating funding (above)	2,159	4,645	91,608	8,458	9,630	8,
Depreciation & amortisation expense	(2,739)	(2,925)	(3,259)	(3,599)	(3,726)	(3,
Reduction in ACC Leasehold Liability	1,035	917	936	917	896	
Fair value gains on investments	1,737	3,195	3,315	3,502	3,642	3,
Operating Surplus After Income Tax per Statement of	2,192	5,832	92,600	9,278	10,442	9,

7. Investment Policy - Externally Managed Funds

Where Council funds are to be managed externally by a suitably qualified Investment Manager, investment funds (Funds) are managed in line with a separate Statement of Investment Policy and Objectives (SIPO) document. An external Investment Manager will be appointed in the knowledge of and operate the portfolio according to, the investment guidelines outlined in the SIPO.

Council will be responsible for the following:

- Setting the Fund's Investment Strategy, including the level of risk and investment performance objectives, and investment policies.
- Formally reviewing the SIPO annually, including the investment strategy, policies and manager configuration, and instructions to the Investment Manager.
- Formally reviewing the SIPO every three years. The review includes the investment strategy, return objectives, policies and manager configuration, and instructions to the Investment Manager.
- Ensuring that the level of redemptions from the Fund is consistent with the Fund's objectives to maintain its real capital value, and amounts available for distribution, between present and future generations.
- Providing cash flow information to the Investment Manager with respect to future deposits to, and redemptions from the Fund.

The strategic asset allocation and tactical ranges provided in the following table are included within HBRC's SIPO document.

Sector	Benchmark %	Ranges %
NZ equities	15%	13% - 18%
International equities (fully hedged)	29%	25% - 34%
NZ property	3%	1% - 4%
International property (fully hedged)	3%	1% - 4%
Total growth assets	**50%**	**40% - 60%**
Cash and short term securities	5%	2% - 8%
NZ fixed interest securities	20%	15% - 24%
International fixed interest (fully hedged)	25%	23% - 28%
Total income assets	**50%**	**40% - 60%**

8. Investment Policy - 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.

Part 7 – Policies | Wāhanga 7 - Ngā Kaupapa Here

Treasury Policy

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.

In its role as a CCO, HBRIC is responsible for approving 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:

- Is inconsistent with delivery of HBRC's strategic objectives
- Significantly varies performance targets agreed through respective Statements of Intent
- 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
- Involves divestment of a strategic asset as defined under Section 97 of the Local Government Act 2002.

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.

The LTP contemplates an up to 49% float of Napier Port on the New Zealand stock exchange in year 2. This would reduce the ownership in Napier Port through HBRIC Ltd up to 51% in 2019-20. However, the LTP is modelled and forecast on a 45% floating of Napier Port.

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.

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Treasury Policy

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) (HBRIC owns 100% of Napier Port in year 1 and then due to the IPO transaction this may be reduced to no less than 51% from year 2 onwards); 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.

Statement on Council Controlled Organisations

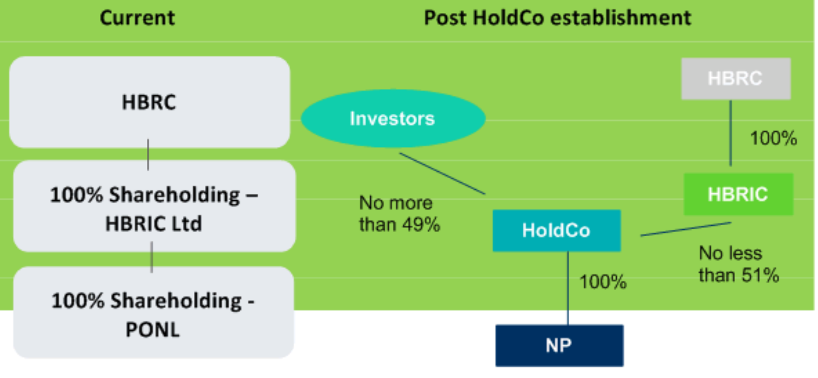
Introduction

In February 2012 Hawke's Bay Regional Council (HBRC) established a Council Controlled Trading Organisation called the Hawke's Bay Regional Investment Company Limited (HBRIC Ltd). HBRC has a 100% shareholding in HBRIC Ltd which has a 100% shareholding in Port of Napier Limited (PONL).

To facilitate a reduced Council holding in Napier Port, it is likely that a newly incorporated subsidiary of HBRIC would become the holding company of PONL. Post the formation of any HoldCo, all shares in PONL would be transferred to HoldCo pursuant to a sale and purchase arrangement between HoldCo and HBRIC Ltd. HoldCo would then issue a yet to be determined quantum of new shares on the New Zealand Stock Exchange (NZX), diluting HBRIC Ltd's holding in HoldCo to a minimum of 51%. In return, HBRIC Ltd will receive a portion of IPO proceeds. The dilution may occur in multiple phases over time, never falling below 51% without a special consultative process.

A strategic asset is defined in the Local Government Act 2002 as "an asset or group of assets that the local authority needs to retain to maintain its capacity to achieve or promote any outcome that it determines to be important to the current or future well-being of the community". Council's strategic assets are listed in its Significance and Engagement Policy. HoldCo would also become a stragetic asset once it owned shares in PONL.

For the purposes of this LTP, the CCO is named HoldCo but it is likely that, upon its formation, an alternative name would be given to the entity.



Hawke's Bay Regional Investment Company Limited

Policy and Objectives in Relation to Ownership and Control

HBRC will retain majority ownership of HoldCo/PONL through its wholly owned investment company. HBRIC Ltd and PONL are both strategic assets of HBRC and will therefore require a special consultative process if there was to be any dilution of the shareholding below 51.

HBRC's objectives in setting up HBRIC Ltd are to:

- Enhance HBRC's capability to actively manage transferred strategic assets.
- Improve net financial and economic returns from these assets.
- Provide flexibility of operation not otherwise available directly to HBRC which would increase returns to HBRC from its ongoing financial management.

Nature and Scope of the Activities

The nature and scope of HBRIC Ltd's activities are to:

- Own and manage the investment assets and liabilities transferred to it by HBRC.
- Encourage and facilitate subsidiary and associated companies to increase shareholder value and regional prosperity through growth, investment and dividend payments.
- Ensure that best practice governance procedures are applied to the key regional infrastructure and financial investments that are under HBRIC Ltd's ownership.
- Monitor the performance of each subsidiary and associated company against their stated economic, environmental and social performance objectives and against relevant benchmarks, ensure that they have proper governance procedures in place, and promote sustainable business practices.

Statement on Council Controlled Organisations

- Advise HBRC on strategic issues relating to its investments including, but not limited to, ownership structures, capital structures and rates of return.
- Perform financial, custodial and other functions required by HBRC which may include:
  - Grouping together HBRC's ownership of its subsidiary companies.
  - Separation of the subsidiary companies from the ordinary operations of HBRC.
  - Smoothing the cash flows to HBRC from its subsidiary companies.
  - Enabling diversification of the Region's income streams for the benefit of ratepayers.
  - Enhancing HBRC's capability to manage an active investment policy.
- Comply with the LGA provisions requiring a special consultative process, and with HBRC policies, in regard to any disposal or part-disposal of shares in any Strategic Asset, for example by way of part sales of shares in PONL.
- Advise HBRC of any material capital expenditure projects by HBRIC Ltd or via its subsidiaries

Key Performance Targets

HBRIC Ltd is to actively manage its allocated investment portfolio and any new investment it makes to ensure:

- Growth in long term shareholder value
- Increased financial and strategic returns
- Investments are secure and sustainable over the long term
- Investments will assist achievement of HBRC's regional strategic development objectives.

Specific financial performance targets are outlined in the following table

HoldCo

Once HoldCo is established it will become a strategic asset of HBRC.

Policy and Objectives in Relation to Ownership and Control

HBRC's and HBRIC's objectives in setting up HoldCo are to:

- Create a NZX listed entity which is the sole entity to offer new shares to the public.
- Create a corporate and governance structure accountable to all shareholders. The constitution of HoldCo will require the board of HoldCo to mirror the board of PONL.

Nature and Scope of the Activities

The nature and scope of HoldCo's activities will be to:

- Own and oversee the successful operation of PONL.
- Meet NZX regulatory requirements and be the listed entity which is subject to the NZX Listing Rules and other financial markets legislation.
- Ensure that best practice governance procedures are applied to Holdco and PONL.

Key Performance Targets

The key performance targets of HoldCo will be to:

- Encourage and oversee growth in long term shareholder value.
- Encourage and oversee increased financial and strategic returns.
- Ensure investments in PONL are secure and sustainable over the long term.
- Ensure socially responsible operation of PONL.
- Support ongoing growth of the regional economy.

Part 7 – Policies | Wāhanga 7 - Ngā Kaupapa Here
Summary of Significant Accounting Policies

Purpose and Scope

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

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

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

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

Process

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

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

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

Our general approach to significance

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

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

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

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

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

Summary of Significant Accounting Policies

When making decisions, Council will:

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

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

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

Criteria for Significance

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

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

Strategic assets

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

HBRC considers the following to be strategic assets:

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

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

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Significant Forecasting Assumptions

Introduction

In preparing the Long Term Plan for 2018-28 a number of assumptions and predictions about the future have been made. There are always inherent risks with such forecasting, therefore it is important that the main assumptions used in these forecasts are identified. This section has been designed to identify these assumptions, and explain the risks associated with such assumptions.

A number of additional assumptions are highlighted in the groups of activities section of this plan.

HBRC Activities and Functions

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

Financial Presentation

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

Population

HBRC has taken into account forecast changes in population in the form of rateable properties. A standard increase of 0.25% has been used for each year of the Long Term Plan. The impact of these changes have a very low effect on the plan's overall projections.

Natural Disasters

A significant disaster event, particularly a flood, may have a major impact on the work programmes set out in this Long Term Plan. As these events cannot be anticipated they have been excluded from the Plan. Following such an event, HBRC will focus on response to community needs and recovery. Any major issues would be included in subsequent Annual Plans or Long Term Plan Amendments.

Climate Change

HBRC has allowed for a response to climate change throughout its work programme and levels of service. Two major projects in this LTP which are in a direct response to climate change are the increase in flood protection standards in the Heretaunga Plains Scheme and the continuance of the Coastal Hazards Strategy 2120 which is looking at a joint committee approach to coastal hazard and sea level solutions.

Napier Port Capital Structure

This plan assumes a change in the ownership structure of Napier Port. Historically through HBRIC Council has held 100% shareholding of the Napier Port. Napier Port requires a significant amount of capital investment over the next decade, which it is unable to fund internally. Council have decided the best ownership structure to enable the investment required is for Council to maintain majority ownership and float up to 49% minority stake in the Port on the New Zealand Stock Exchange. This LTP assumes a 45% minority sale and a transaction date of 1 July 2019 in year two.

An independent review was commissioned to provide appropriate estimates for the value which could be achieved through the proposed transaction. After the Port's $86.6 million of current debt has been cleared, and sales costs deducted, it is forecast $83 million would be available for Council to invest in managed funds.

Significant Forecasting Assumptions

Interest Rates

External Borrowing

The interest rate assumptions for external borrowing for inclusion in the plan are set out below.

- For the 2018-19 financial year 5.0%
- For the 2019-20 financial year 5.5%
- For the 2020-21 financial year 6.0%
- For the remainder of the plan until 30 June 2028 6.5%

Interest on Deposits

The interest rate assumptions for interest on deposits for inclusion in the plan are set out below.

- For the 2018-19 financial year 3.5%
- For the 2019-20 financial year 4.0%
- For the 2020-21 financial year 4.5%
- For the remainder of the plan until 30 June 2028 5.0%

Cost Adjusters

All expenditure projections in the financial statements for year 1 (2018-19) of the Long Term Plan are stated without cost adjusters. From year 2 (2019-20) cost adjusters have been used to allow for the effect of inflationary pressures. These cost adjuster assumptions are set out in Table 1.

The rates have been provided by BERL economic forecasts in September 2017. The salary related costs have also been considered against Strategic Pay indictors who are the providers HBRC uses for annual remuneration reviews.

Table 1: Cost Adjusters

Year	Salary Related Costs		External Expenditure		Works Group Costs	
	Annual (%)	Cumulative (%)	Annual (%)	Cumulative (%)	Annual (%)	Cumulative (%)
2019-20	2.00	2.00	2.20	2.20	2.10	2.10
2020-21	2.00	4.00	2.20	4.40	2.10	4.20
2021-22	2.10	6.10	2.20	6.60	2.15	6.35
2022-23	2.20	8.30	2.30	8.90	2.25	8.60
2023-24	2.20	10.50	2.40	11.30	2.30	10.90
2024-25	2.30	12.80	2.40	13.70	2.35	13.25
2025-26	2.30	15.10	2.50	16.20	2.40	15.65
2026-27	2.40	17.50	2.50	18.70	2.45	18.10
2027-28	2.40	19.90	2.60	21.30	2.50	20.60

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Significant Forecasting Assumptions

Asset Value Adjusters

All applicable assets are revalued at various stages during the LTP. Table 2 below sets out the asset value adjusters used in the Long Term Plan.

Table 2: Asset Value Adjusters

Year	Land & Buildings (%)	Forestry Assets (%)	Investment Property (%)	Infrastructure Assets (%)	Hydro Assets (%)	HBRIC Ltd Shares (%)
2018-19	3.00	6.00	5.00	1.40	2.30	5.00
2019-20	3.00	6.00	5.00	2.20	2.50	5.00
2020-21	3.00	6.00	5.00	2.30	2.30	5.00
2021-22	3.00	6.00	5.00	2.30	2.40	5.00
2022-23	3.00	6.00	5.00	2.30	2.40	5.00
2023-24	3.00	6.00	5.00	2.30	2.50	5.00
2024-25	3.00	6.00	5.00	2.40	2.60	5.00
2025-26	3.00	6.00	5.00	2.40	2.60	5.00
2026-27	3.00	6.00	5.00	2.40	2.70	5.00
2027-28	3.00	6.00	5.00	2.40	2.80	5.00

The above rates for Infrastructure Assets and Hydrological Assets have been provided by BERL economic forecasts in September 2017.

The rates used for Land & Buildings, Forestry Assets, Investment Property and HBRIC Ltd Shares were not provided by BERL so industry knowledge and previous actual results have been used as a guide to produce these conservation rate assumptions.

- Property and Forestry Crops are revalued every year
- HBRIC Ltd shares are revalued every three years starting in the 2020-21 year
- Operational Land and Buildings and Hydrological Assets are revalued every Investment three years starting in the 2018-19 year.
- Infrastructure Assets are revalued every three years starting in the 2019-20 year.

Investments

Investment Activities

HBRC has significant investment assets which are used to generate income and help subsidise the operating expenditure of HBRC activities.

The LTP proposes to maintain the current investment in:

- Napier Port through HBRIC Limited
- Leasehold property in Napier and Wellington
- Existing forestry

HBRIC Ltd

HBRIC Ltd, the Council's investment company, commenced activities in February 2012. Its principal investment is 100% ownership of Port of Napier Limited (PONL), which owns and operates Napier Port

In this LTP it is contemplated that in year 2 HBRIC reduces that holding to no less than 51% under a shared ownership structure. A reduction to 55% has been used for modelling and forecasting purposes.

From year 2 onwards Port dividends are assumed to be 60% of the Port's Net Profit after Tax (NPAT), with HBRIC receiving 55% of this.

Dividends payable to HBRC will be 100% of HBRIC Ltd's NPAT as stated in its Statement of Intent (SOI) for the year ending 30 June 2018.

The following table summarises the significant forecasting assumptions in respect of HBRIC Ltd dividends.

Year	$'000	Year	$'000
2018-19	10,000	**2023-24**	7,500
2019-20	90,900	**2024-25**	7,900
2020-21	8,000	**2025-26**	8,600
2021-22	7,500	**2026-27**	9,400
2022-23	7,200	**2027-28**	9,700

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Significant Forecasting Assumptions

New Investment/ Managed Funds

The previous LTP had proposed investment of up to $80 million into the RWSS project through HBRIC Limited. As at the end of June 2017 HBRC had advanced $15 million into the project. In the wake of a Supreme Court decision to rule against the land exchange needed to continue with the project, HBRC resolved to invest no further capital in the RWSS and write off the full value of the advance between HBRC to HBRIC Ltd.

The remaining $65 million was made up of $50 million cash funds and $15 million invested in Wellington Leasehold Property. It has been proposed to keep the Wellington Leasehold Property and the remaining $50 million which had been set aside for the project are now to be preserved and to provide investment income to help fund the increase to Council's operating activities.

Instead of keeping these funds on term deposit it is proposed to make these assets work harder and provide more returns. This LTP assumes a return of 4.5% on the funds for the first year of the LTP when term deposits are being transferred and then a 5% return for the rest of the LTP.

There is an assumption that managed funds will also maintain a capital growth of 2% per annum.

In addition to the $50 million placed in year 1, it is forecast $83 million would be available in year 2 for Council to add to this managed fund following the floating of up to 49% of Napier Port on the New Zealand Stock Exchange.

Any income over those projections are to be transferred to Investment Income Equalisation reserve and will earn interest in line with interest on deposits stated above and will be used to cover market fluctuation risks.

These investments may include any of the investment classes included in the investment policy.

Start Up Investments

Water Augmentation

The LTP proposes a $5 million fund to be available for water augmentation, not fixed to any particular scheme but available as a grant fund for technical investigation and feasibility.

Although there may be potential for future investment returns from water augmentation investment these have not been factored into the LTP budgeting process as there needs to be more clarity in this area.

Significant Forecasting Assumptions

Risks to Assumptions

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

Council Investment Risks

Investments	Assumption	Risk to Assumption	Level of Uncertainty	Reasons and Financial Impact
HBRIC Ltd	Dividends will be paid to HBRC as scheduled	Napier Port financial performance falls short of its forecast or natural disaster reduces Napier Port capacity or the new capital	Medium	A substantial part of HBRC's regional income comes from HBRIC as the majority of HBRC's investment assets are held by HBRIC. Any diminution of dividends paid by HBRIC to HBRC will have a direct negative effect on HBRC's operating position. HBRIC's ability to pay dividends relies in the first instance on the profitability and dividend payments of Napier Port. If dividends were not able to be received there would be a large impact on rates. For every $500,000 less in dividend received from HBRIC there will be a $500,000 higher rate required or debt increase.
Napier Port	The capital needs of the Napier Port will be meet through the float of an up to 49% minority stake in the Port on the New Zealand Stock Exchange	That the capital solution does not meet the full capital requirements of Napier Port and further investment and consultation may be needed.	Low	All entities involved with the transaction are confident that this is a long term solution to the Port capital needs. If there were unexpected capital needs then where the listed stake is less than 49% there is room for further dilution. This would reduce dividends payable to HBRIC and therefore through to HBRC. Or the Port could try and develop the new infrastructure themselves which would require reduced dividends with potentially large implications for the income of the Council. For every $500,000 less in dividend received from HBRIC there will be a $500,000 higher rate required or debt increase.
Port transaction timing	A transaction date of 1 July 2019	Delays would impact dividend levels and interest income	Low	If the transaction was delayed then the dividend levels should remain at the level stated in the original LTP as long as the Port can continue to operate effectively with a delayed Wharf 6. As the capital transaction only increases income HBRC should not be any worse off with a delay in the transaction.
Port transaction completion	That there is sufficient take up of the minority stake in the Port on the New Zealand Stock Exchange	If expectations are not meet HBRC can walk away from any transaction	Low	If the transaction was not completed then the Port would feel the need to try and develop the new infrastructure themselves which would require reduced dividends with large implications for the income of the Council. For every $500,000 less in dividend received from HBRIC there will be a $500,000 higher rate required or debt increase.

Significant Forecasting Assumptions

Port transaction tax	That there are no adverse tax implications from the transaction	Due to the complexity of the transaction there could be adverse tax costs that could lower the returns received by HBRC	Low	While tax considerations have been factored into the transaction, the complex nature of the transaction gives rise to a tax risk which could impact returns from dividends or funds available to invest. For every $500,000 less in dividend received from HBRIC there will be a $500,000 higher rate required or debt increase.
Proportion of Sale	The LTP has been prepared on the basis of a 45% stake in the Port being sold but the Council reserves the right to move the percentage being floated in response to variables, including market conditions. The Council will float no more than 49% of the Port in order to protect a majority ownership position.	The financial modelling used in the LTP will move if the sale percentage changes.	Low	While the preferred option for sale has been modelled at 45% there is the possibility that this proportion needs to be adjusted (although to no higher than 49%). While this should only provide for more residual funds if adjusted up there is always a possibility that funding streams change. For every $500,000 less in dividend received from HBRIC there will be a $500,000 higher rate required or debt increase.
Corporate Structures	The Council retains the ability to establish the appropriate structures to manage the Port transaction and the Council's continued ownership position in the Port.	There is a possibility that Council would need to create new holding entities or corporate structures in order to provide the benefits assumed by this LTP.	Low	The current corporate structure with the Hawkes Bay Regional Investment Company Limited acting as a holding company for the Port may not provide the benefits assumed by this LTP so other structures may be required. There will be no financial impact to Council.
Wellington leasehold properties	Lease payments will continue as scheduled	Lessees unable to pay or natural disaster leaves land unleaseable	Low	A good part of HBRC's regional income comes from Wellington Leasehold lease payments. Any diminution of payments will have a direct negative effect on HBRC's operating position
Forestry Harvesting	Log prices remain stable over the period of the LTP.	Price for logs at harvesting is lower than forecast.	Low	Like all commodity markets timber is cyclical, however this risk can be managed by bringing forward or deferring harvesting.

Forestry - Manuka	Honey prices remain stable over the period of the LTP	Price for honey is lower than forecast.	Low	A small part of HBRC's regional income comes from honey sales.
Managed Funds	Revenue assumptions can be met each year	Investments and markets can fluctuate effecting income and capital value.	Medium	A diverse portfolio will be required to mitigate the risk of investment fluctuations as well as trying to build up a reserve to cover fluctuations. Managed funds held for investment are to be in the order of $133M in the first two years of this plan with capital growth of 2% thereafter. Therefore a 0.5% movement either up or down from the assumed levels of returns in this plan would result in an annual exposure of plus or minus $665,000.
Water Augmentation	No returns assumed in the LTP period	No risk	Low	No downside financial impact. There may well be an upside if the investment can be turned into a commercial feasibly project.
NGR	No returns assumed in the LTP period	No risk	Low	No downside financial impact. There may well be an upside if the investment can be turned into a commercial feasibly project.

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Significant Forecasting Assumptions

Other Risks

Investments	Assumption	Risk to Assumption	Level of Uncertainty	Reasons and Financial Impact
Inflation	Inflation rates have been developed from BERL economic forecasts	Inflation is higher or lower than forecast	Medium	Inflation is affected by external economic factors, most of which are outside of HBRC's control and influence. The estimate of the potential effects of the uncertainty is best illustrated by stating that for 2019-20 a move in the cost adjustors provided by BERL and used in this plan by plus or minus 0.5% would result in either an under or over provision for external expenditure of $107,000 and for employment costs of $90,000 .
Interest Rates on Borrowings	Interest rates increase slightly over the term of the plan	Interest rates are higher or lower than forecast	Medium	The majority of the borrowing programme proposed in this plan is to provide funding to cover loans to homeowners for Sustainable Homes and for the Integrated Catchment Activities. The effect of any interest rate movements on the borrowing programme can best be illustrated by stating that a 0.5% movement either up or down from the assumed levels of interest rates in this plan would result in an annual exposure of plus or minus $17,000 for 2018-19 $224,000 for 2027-28 the last year of the plan.
Asset Revaluations	Asset value adjusters have been developed from a combination of external and industry knowledge and previous actual results	Asset value adjusters are higher or lower than forecast	Medium	Asset valuations are affected by external economic factors, most of which are outside of HBRC's control and influence. While the movement in asset valuations are not cash transactions they do have an effect on the statement of comprehensive revenue and expenditure as well as increasing or decreasing the asset values on the statement of financial position. The estimate of the potential effects of the uncertainty is illustrated in by plus or minus 0.5% on the asset revaluation would increase/decrease the revaluation amount by $73,000 for 2018-19
Occurrence of Natural Disaster	No natural disasters	A natural disaster/flood event occurs which damages Council's property, plant and equipment	Medium	Call on commercial insurance, Local Authority Protection Programme and Government funding through the National Civil Defence Recovery Plan. The use of reserves is also available to HBRC as required.

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HAWKE'S BAY
REGIONAL COUNCIL
Te Kaunihera ā-Rohe o Te Matau-a-Māui

Publication Number: 5006; ISBN Number: 978-0-947499-20-4

2018

Hawke's Bay Civil Defence Emergency Management Group Annual Report 2017/18

HAWKE'S BAY EMERGENCY MANAGEMENT GROUP
www.hbemergency.govt.nz

Item 14

Attachment 1

Introduction

This Annual Report summaries the activities of the Hawke's Bay Civil Defence Emergency Management (CDEM) Group over the 2017/18 financial year against the outcomes set by the Joint Committee, the key performance indicators contained in the Hawke's Bay Regional Council Long Term Plan (LTP) and the Group Work Programme. This includes activities across the 4Rs of Reduction, Readiness, Response and Recovery and the Group's financial performance.

2017/18 was a busy year for the Hawke's Bay CDEM Group. In particular, the Group was involved in a number of weather-related responses that covered a wide range of coordinated actions across the provision of public information, welfare, Lifelines, emergency services and recovery.

At the same time the Group was undergoing significant organisational change with a complete review of the Group office structure and the model for funding for CDEM in Hawke's Bay. In July the group office and Group Emergency Coordination Centre moved into temporary accommodation while the existing Hastings emergency management facility is being rebuilt.

At a national level, the New Zealand Government commenced a review of CDEM in New Zealand and the Group made submissions to the Technical Advisory Group (TAG). The Group office also took part in working groups on developing responses to the final TAG Report and implementation options to be considered by the government.

With the evolution of the Hawke's Bay CDEM Group and strengthening the "shared service" approach across the five council members, the next report for 2018/19 will have a different focus with outcomes sought and performance indicators being driven by the CDEM Group Plan, rather than the HBRC LTP. As part of the 2018-28 Hawke's Bay Regional Council LTP, the CDEM level of service statements and performance indicators have been reduced from 23 to 10. These new measures focus on hazard reduction and that the Group maintain a Group Plan and associated work programme. This endorses the fact that the Group's primary governance is the CDEM Joint Committee and that the HBRC is one of five members of this Committee.

Bill Dalton
Chairperson
Joint Committee
Hawke's Bay Civil Defence Emergency Management Group

Wayne Jack
Chairperson
Coordinating Executives Group
Hawke's Bay Civil Defence Emergency Management Group

Contents

Reduction

Group Plan reduction outcomes

- *Everyone understands the risks they face and accepts responsibility for reducing risk and being prepared.*
- *Sound integrated planning, which has resulted in risks being reduced to acceptable levels.*

Risk reduction activities

East Coast Life at the Boundary (ECLAB)

ECLAB is a significant project for identifying hazard impacts and addressing the risks faced by Hawke's Bay. The project commenced in 2016 and is a collaboration between the Hawke's Bay, Bay of Plenty, Manawatu/Whanganui and Wellington CDEM Groups with a number of other research and education providers. The Hawke's Bay CDEM Group is the project leader. The aim of the project is to bring together scientists, emergency managers, experts and stakeholders across the East Coast to make it easy and stimulating for the community to learn more about the natural hazards that can affect them.

In an interagency environment, ECLAB has also supported or delivered on several projects during the reporting period including science projects such as the Ministry of Business, Innovation and Employment Hikurangi/SHIRE[1] research, Geological and Nuclear Science Citizen Science project, Ministry of Civil Defence Emergency Management Tsunami Safer Schools project, National Science Challenge Kura and Participatory-Tech projects, and NHRP[2] agent-based tsunami evacuation modelling.

Hazard research

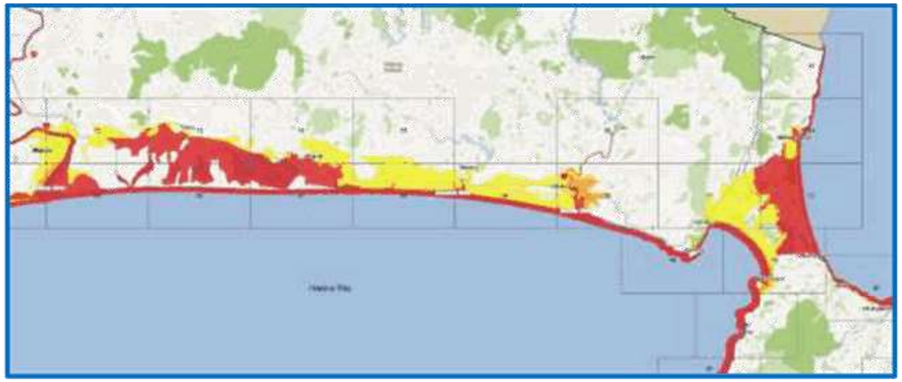
In late 2017, we delivered a substantial report reviewing the 1999 research on liquefaction. This was a collaborative project with Hawke's Bay local authorities, the Hawke's Bay branch of Engineering New Zealand and the national Natural Hazards Research Platform. The project used data from ground conditions testing conducted by councils, central government agencies and private developers uploaded into the National Geotechnical Database established after the Canterbury earthquakes. We were the first region to use this database after Canterbury. As additional geotechnical and groundwater data is collected and shared on this database, and further analysis undertaken, our knowledge and refinement of liquefaction-prone areas in Hawke's Bay will increase.

Risk reduction

We have continued to advocate for a risk-based approach to land use development and made submissions on notified resource consents and council plan changes as appropriate.

A key component of risk reduction is making hazard information easily and freely available to the community. We have continued to provide and develop the Hawke's Bay Natural Hazards Portal, which is now being used extensively by councils, developers and individuals as a "one-stop shop" to understand and address the risks they face.

See www.hbemergency.govt.nz/hazards/hazard-maps



[1] Seismogenesis Hikurangi Integrated Research Experiment
[2] Natural Hazards Research Platform

Readiness

Group Plan readiness outcomes

- *A strong community spirit, which helps people to pull together to ensure their safety.*
- *Businesses and response organisations with well-rehearsed business continuity plans that safeguard both people and business income.*
- *Community and response organisations with the capability to deal with unexpected events.*
- *Community recognises the critical role Civil Defence Emergency Management plays in ensuring their safety and prosperity.*

Readiness activities

Community engagement and resilience planning

Community Resilience Plans are the foundation of improving community resilience and achieving our vision of "A Resilient Hawke's Bay Community". A Community Resilience Plan is a process to bring a community together to plan and prepare for their community response to a disaster. The process is very relationship-based in building connections between friends, family, co-workers and neighbours with the support of CDEM staff and our partner agencies such as the local council and emergency services.

In an emergency, people in the community want to come together to assist one another. This process can be better co-ordinated if the community has developed a Community Resilience Plan. Creating a Community Resilience Plan involves community workshops planned with a small group of community champions. We have a programme for completing and reviewing Community Resilience Plans prioritised by the risks faced by Hawke's Bay communities.

The following Community Resilience Plans were completed over the reporting period:

- Taiwananga (Wairoa District)
- Waikaremoana
- Mahia
- Nuhaka
- Whakaki
- Iwitea

The following plans were commenced:

- Porangahau
- Maraekakaho-Kereru
- Ocean Beach
- Frasertown
- Marewa-Napier South

Public information and education

We actively supported the national *Get Ready Week*. CDEM staff and Red Cross volunteers presented the Get Ready Road Show to 640 children at 16 holiday programmes.

Over the reporting period we carried out the following significant community engagement activities:

- Red Cross volunteers delivered our CDEM programmes to more than 1000 primary school students with CDEM messages and resources sent home to whanau.
- On our behalf, Health Hawkes' Bay distributed 1600 household plans and *Rūaumoko's Walk* books for children at B4 School checks.
- We presented to more than 50 community, marae, post-treaty settlement groups and business organisations covering around 2500 people.
- We supported Council Safer Community projects.
- We carried out community engagement activities at events such as the Home and Garden Show, Waitangi Day, Tumu Timbers Whanau Day, Mitre 10 QuakeSafe Stall, and Wairoa and Central Hawke's Bay Shows.
- We supported Ministry of Foreign Affairs programmes with South East Asian delegates and University of French Polynesia master's students.
- We delivered business emergency planning workshops with Tourism Hawke's Bay and Business Hawke's Bay.

We completed a review and refresh of the Hawke's Bay CDEM Group webpage. See www.hbemergency.govt.nz

We also maintained a very active social media profile with our Facebook page having more than 25,000 followers. See www.facebook.com/hbemergency

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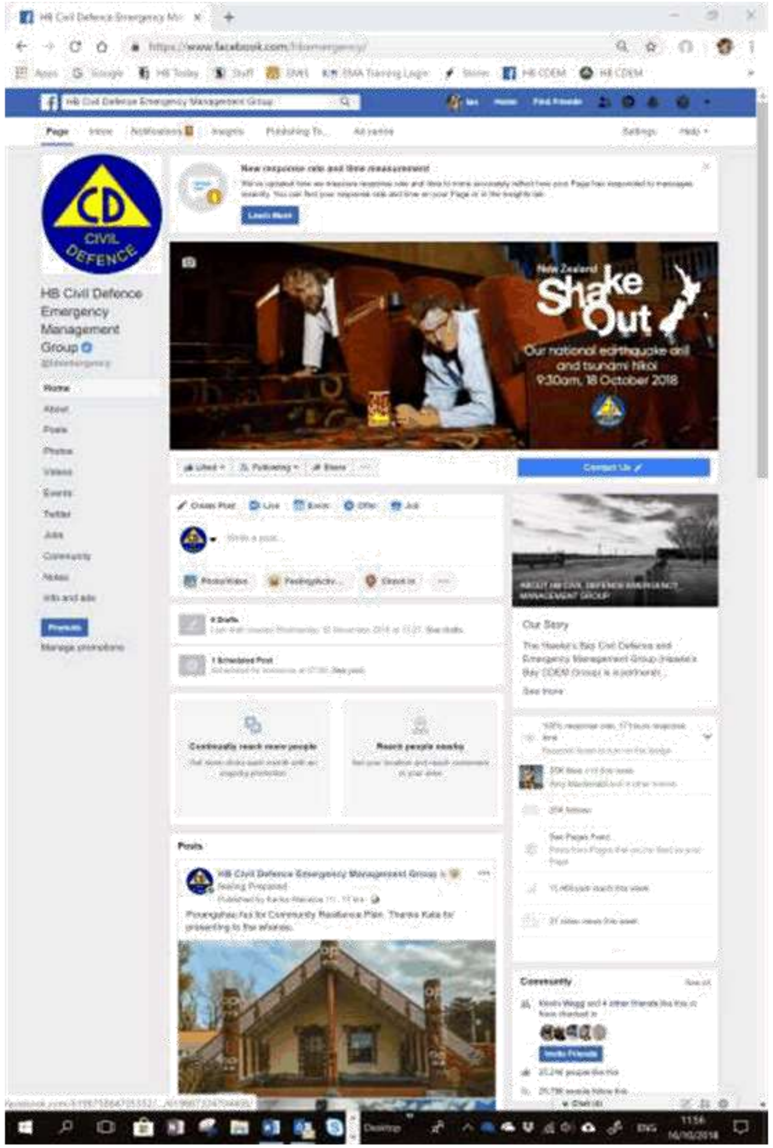

Volunteers

In 2017 we completed a review of Hawke's Bay CDEM volunteers, which included a Volunteer Needs Analysis. As a result of this review, we developed a Volunteer Strategy. In implementing this strategy, we established the Hawke's Bay Emergency Response Team, which consists of Rapid Response, Welfare and Communications sections.

We recruit, train and equip these teams and as such they are our responsibility. Members of this team can be deployed across Hawke's Bay and if appropriate in support of another Group or a national response. The team runs regular training on Tuesday nights. We are working with Hawke's Bay Fire and Emergency New Zealand (FENZ) to formalise an agreement on training and deployment of the Hawke's Bay Rapid Response Squad.

We are also working with individual communities that wish to establish community-led volunteers. Apart from some basic induction training we are not directly responsible for these volunteers, who will work within their own communities.

Welfare preparedness

We are responsible for leading the Hawke's Bay Welfare Coordination Group (WCG), which is made up of a number of government and non-government organisations that work together in a coordinated CDEM response to assess and deliver positive welfare outcomes to individuals and communities. Over the year, the WCG held three meetings. A focus this year has been developing an understanding of how we could stand up a navigation service to those requiring additional support in an emergency. We have also facilitated welfare training and interagency engagement.

During the reporting period the WCG developed a Welfare Plan, which outlines how welfare is organised and managed to enable an effective welfare response for the Hawke's Bay region.

With the support of the Ministry of Primary Industries, we have also helped establish a Rural Advisory Group, which provides information, advice and support on rural matters during an event. This group harnesses the collective capabilities of the rural sector to improve rural response and recovery from emergencies.

Training and exercising

We maintained a full training programme during the reporting period. The following table summarises this activity:

Course/Training (Number Run)	Course/Training Objectives	No.
Introduction to CDEM (online)	Introduce all new council staff to Hawke's Bay hazards, civil defence and personal preparedness	335
Emergency Management Information System Training (2)	Introduction and practice use of national Emergency Management Information System	35
Integrated Training Framework Foundation Course (1)	Introduce staff to CDEM, the roles councils and other agencies play and the Coordinated Incident Management System	20
Integrated Training Framework Intermediate Course (5)	Two-day course to introduce and practice staff identified to work in incident management teams and coordination centres in the operational planning process	100
Coordinated Incident Management Systems (CIMS) Level 4 (2)	Demonstrate knowledge of and application of CIMS functions	40
Civil Defence Centre (CDC) Course (2)	Basics of establishing and operating a CDC	20
Hikurangi Short Course (1)	Emergency management staff introduction to Hikurangi Subduction Zone	10
Public Information Management Systems Training	Introduction to mass public alerting systems	10
Hawke's Bay Tsunami Evacuation Planning Workshop	Ministry of Education advisors and school principals	12
Hawke's Bay CDEM Group and Joint Centre for Disaster Research Workshop	Welfare staff and agencies – Behaviour in Disasters	14

We also supported a New Zealand Police Eastern District mass evacuation exercise and developed and ran an exercise for Hastings District Council.

Emergency coordination facilities

In June, the Group Emergency Coordination Centre (GECC) and the Group office staff moved into a temporary facility in Hastings while the main Hastings Emergency Management Centre is being rebuilt. It is expected that we will be able to move back into this facility in July 2019.

The Group office conducted audits of both the Central Hawke's Bay and Wairoa Emergency Operations Centres and corrective action plans are being developed or implemented.

Equipment and technology

During the year we reviewed our regional agency warning system and purchased and commenced the implementation of Whispir, which is also being used for the

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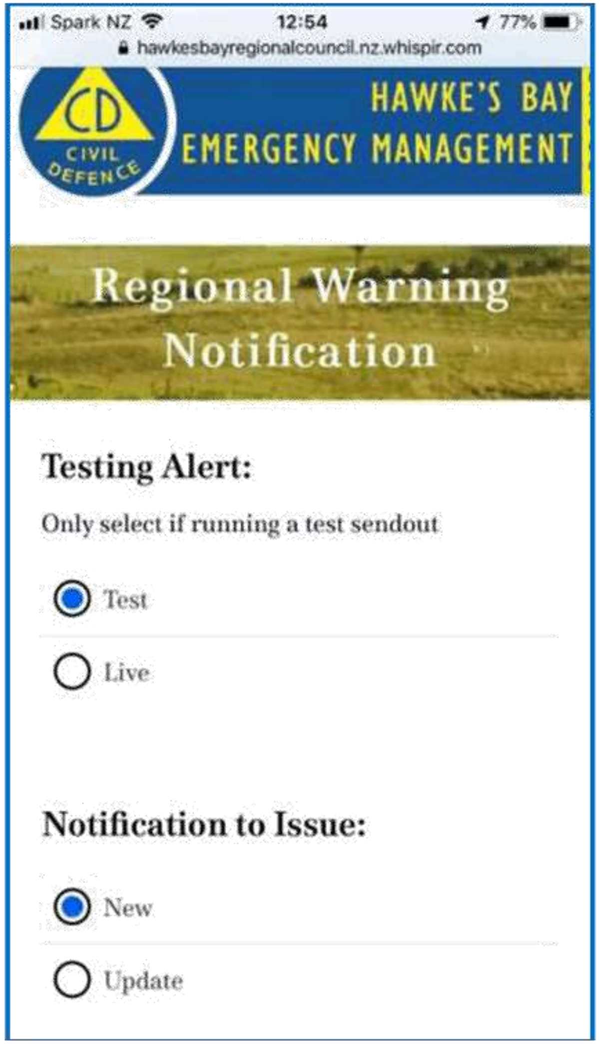
national warning system. Whispir is a cloud-based communication system that brings email, text and voice messaging together in one place that can be accessed across devices.



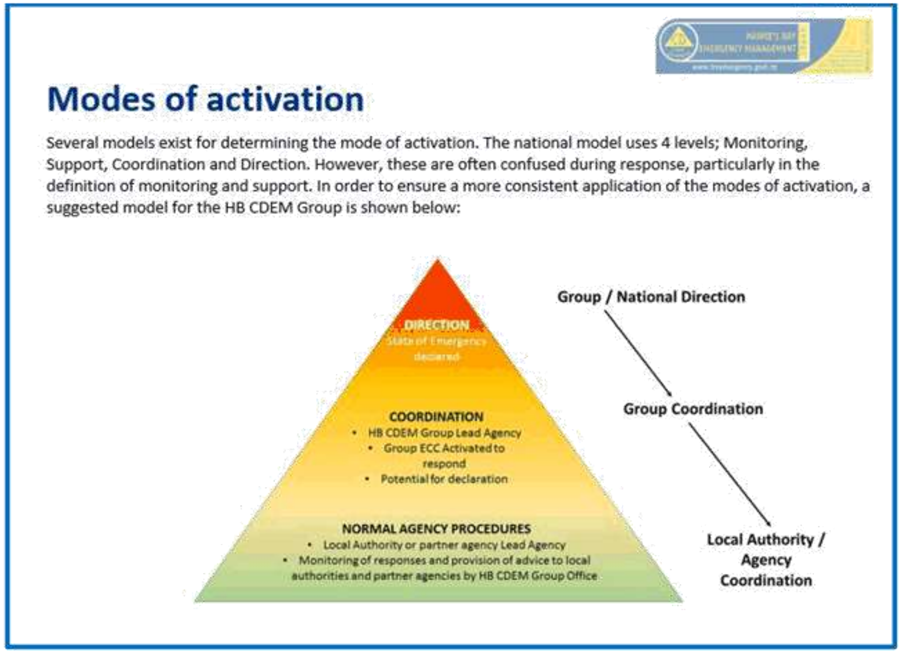
In mid-2017 the national Emergency Mobile Alerting system was implemented, and we can initiate messages for the region from the national portal. The first national test was conducted in October and around 30 per cent of cell phones in New Zealand received the alert. Further improvements have been made and it is now estimated the system has 60 per cent coverage.

We maintain both regional and local VHF radio networks and these are tested and maintained regularly.

Response planning

We developed and are maintaining an Initial Response Plan programme. Over the reporting period we completed, or made substantial progress, on the following:

- Tsunami Response Standard Operating Procedure
- Hawke's Bay CDEM Group Response Framework
- Hawke's Bay Rapid Impact Assessment Tool and Plan (FENZ and CDEM)



Response

Group Plan response outcomes

- *People know what to do and to help each other in the event of an emergency.*
- *A rapid, well-coordinated and effective response to an emergency.*

Response activities

During the reporting period we issued 111 watches or warnings to partner agencies through the regional warning system.

We deployed one staff member to the West Coast to support the West Coast Group response to Cyclone GITA.

The following significant responses occurred during the year:

Date	Event	Description
July 17	SH5 snow event	30 trapped motorists, welfare response in conjunction with New Zealand Police. Activation of GECC in support.
September 17	Mexico tsunami warning	Small surges experienced in Hawke's Bay. Public information messaging and coordination.
March 18	Esk floods	Evacuations and welfare response for around 40 affected residents. Activation of GECC and Hastings District Council Incident Management Team (IMT).
March 18	Mangapoike Dam	Public information and warning in Wairoa District regarding slip dam break potential.
June 18	Severe weather event	Significant rainfall across region, all rivers at 1in5 levels. Coordination of response by Hawke's Bay Regional Council and local council incident management teams. Monitoring and advice at GECC.

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Recovery

Group Plan recovery outcomes

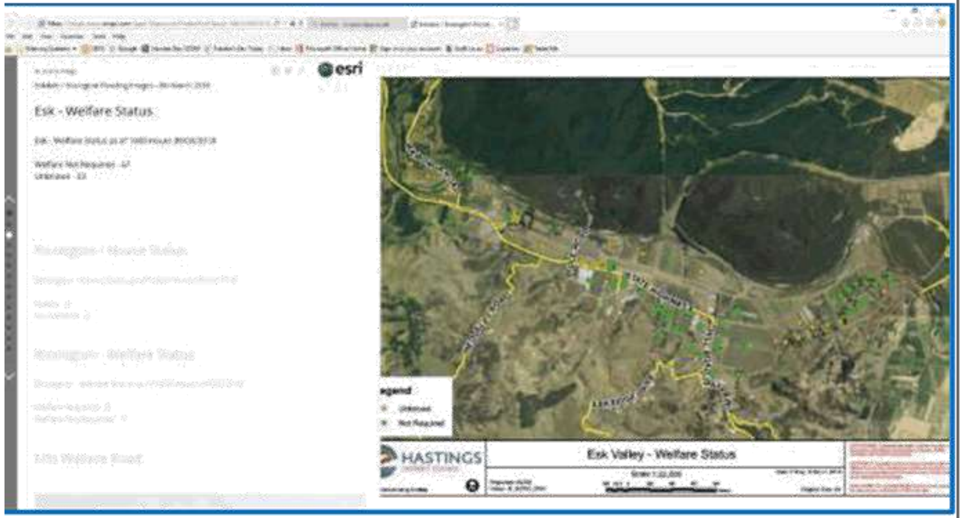
- *Organisations and agencies are aware and prepared for the role they may play in recovery.*
- *A responsive, well-coordinated and efficient recovery from an emergency.*

Recovery activities

We appointed a new Group Recovery Manager on a contractual basis during the reporting period.

We have run several recovery workshops with individual councils primarily to clarify roles and responsibilities for recovery post a disaster and introduce the Group Recovery Framework.

Recovery is also an important part of the Community Resilience Plan process with communities identifying the priorities for recovery for them after an event.



Other significant activities

Governance

The Hawke's Bay CDEM Group is governed by a Joint Committee of all Hawke's Bay councils made up of the Chairperson of the Regional Council and the Mayors. The Committee met three times over the reporting period.

Management overview is provided by the Coordinating Executive Group. Organisations represented on this committee include:

- the Chief Executive of each of the five member councils
- Fire and Emergency New Zealand
- New Zealand Police
- Hawke's Bay District Health Board
- St John Ambulance
- Hawke's Bay Lifelines Group

The Coordinating Executive Group (CEG) held four meetings during the reporting period.

The HBRC is the administrating authority for the Group and is responsible for employing Group staff and gathering the CDEM targeted rate.

Group office restructure

In late 2017 we commenced a review of staffing structures and identification of the future expertise and capability that would be required to maintain and improve the capability of the Hawke's Bay CDEM Group.

The aim of the review was to develop a Hawke's Bay CDEM staffing structure that better supported the Joint Committee and CEG in the implementation of the Group's strategic direction through its work programme and projects.

In early 2018 the new structure was proposed and subsequently adopted. The staffing structure for the Hawke's Bay CDEM Group office is attached as Appendix 2.

CDEM Group funding review

As part of the council's Long Term Plan processes earlier in 2018, all councils adopted a proposal to fund CDEM activities centrally via a targeted rate through the HBRC as the Group administrating authority.

The level of this rate was based on the existing expenditure by all councils and some savings were realised through the process. Most of these savings were reinvested back into resourcing capability gaps in the Group. We have created a new position specialising in public information before and during an event, and coordinating public education as part of individual and community resilience.

HBRC Long Term Plan KPIs

Attached as Appendix 1 are the relevant extracts from the HBRC Annual Report with respect to emergency management activities.

We fully achieved most performance targets except for response procedures, training and the Group Emergency Coordination Centre, which we partially achieved. This was in relation to changes being made at the time of reporting in the Group's response framework and the work to rebuild the Emergency Management Centre in Hastings.

With the adoption of the latest HBRC LTP this year, these KPIs will change and for next year this report will focus on achieving the outcomes and objectives set in the Group Plan and the Group Work Programme.

Financials

We are funded by a rate targeted to the ratepayers located in the boundaries of the Group. As a targeted rate, any money gathered must be used for CDEM purposes.

Emergency Management	**Actual 17/18 ($'000)**	**Budget 17/18 ($'000)**
EXPENDITURE		
Operating Expenditure		
Employee Expenditure	891	924
Vehicle Expenditure	38	31
Depreciation	88	81
Overheads	213	171
Other Expenses	94	82
External Expenditure	337	398
Operational Expenses	16	104
Total Operating Expenditure	1,677	1,791
TOTAL EXPENDITURE	1,677	1,791
REVENUE		
Targeted Rates (Uniform Annual Charge)	1,072	1,063
Interest	1	(1)
Grants	683	695
Total Other Revenue	1,757	1,757
TOTAL REVENUE	1,757	1,757
TOTAL FUNDING REQUIREMENT	**80**	**(34)**
Special Reserve Funding		
Specific Scheme Reserves	(80)	34
Total Special Reserve Funding	(80)	34
NET GENERAL FUNDING REQUIREMENT	**(0)**	**-**

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Attachment 1

This financial year was a period of change where we brought together five different council budgets into one.

We underspent by $80,000 in the 2017/18 financial year. This was mainly due to two vacancies being held for part of the year, which impacted both on personnel costs and operational expenditure. This was offset by an overspend in the last financial year, which was due to one-off costs in personnel as part of the integration of local council emergency management officers into the Group office, and restructuring costs.

To cater for under and over expenditure year to year, the targeted rate scheme operates a reserve account. Part of this reserve account contains money collected and administrated on behalf of the Hawke's Bay Lifelines Group.

As a result, at the end of the financial year the Hawke's Bay CDEM Group reserve account stood at $38,000 for CDEM and $46,000 for the Lifelines Group.

Emergency Management Reserve Account		
	Lifelines 17/18 ($'000)	CDEM 17/18 ($'000)
Balance Carried Forward From 16/17	**44**	**(42)**
Expenditure	17	-
Revenue	19	80
BALANCE	**46**	**38**

Appendices

Appendix 1 – HBRC Long Term Plan Hawke's Bay CDEM KPIs

Level of Service Statement HBRC will reduce the impact of long term natural and man-made hazards to life and property, eliminating these risks if practicable, and if not seek the reduction of their impact			
Level of Service Measures	**Performance Targets**	**Required Action**	**Progress Report (to 30 June 2018)**
Assessment of natural and manmade hazards will be completed for at risk areas in Hawke's Bay	In conjunction with Territorial Authorities (TAs), provide public advice on the impacts of hazards; and advocate to TAs for the consideration and inclusion of hazard information as part of their land use planning functions	712 - Provide public advice through a range of media (internet/public forums)	Achieved **Ongoing - Liquefaction information distributed via a variety of media including digital and traditional media**
		712 - Be actively involved in Territorial Authority RMA planning processes	Achieved **Ongoing - considerable work on Liquefaction done with TLAs in December plus submissions made on resource consent applications. Work has also commenced on looking at a change to the RPS to strengthen Natural Hazards provisions**
Number of hazards research projects commissioned each year	At least one new research project commissioned each year	711 - Commission a hazards research project based on HBRC Hazard Research Plan and priorities set out in the Hawke's Bay Civil Defence Emergency Management Plan	Achieved **The HB liquefaction risk review was completed and released November 2017. HBCDEM has assisted MCDEM on Phase 1 of a Tsunami vertical evacuation project to produce national guidance. East Coast LAB is subcontracted/funded on several science projects, including the MBIE Hikurangi/SHIRE research, GNS Citizen Science project, MCDEM Tsunami Safer Schools Project, National Science Challenge Kura & P-Tech projects, and NHRP Agent based tsunami evacuation modelling.**

Level of Service Statement HBRC will reduce the impact of long term natural and man-made hazards to life and property, eliminating these risks if practicable, and if not seek the reduction of their impact			
Level of Service Measures	**Performance Targets**	**Required Action**	**Progress Report (to 30 June 2018)**
Percentage of surveyed residents that are aware of hazard risks and can identify earthquake, flooding, and tsunami as major hazards in Hawke's Bay	Awareness of earthquake, flooding/heavy rainfall and tsunami hazard risks show an increase over time, as measured in a 3-yearly survey (July 2018); specifically, by 2018 at least 75% of residents can identify tsunami as one of the region's major hazards	711 - Commission a Community Survey to be carried out in July 2018	Achieved **SIL Research ran a survey in July 2017, where 86% identified earthquake, 58% identified flooding, and 45% identified tsunami as a disaster or threat of highest concern. An East Coast LAB Tsunami Hikoi Week from 10-16 March 2018 was run to educate communities about the right actions to take before, during and after an earthquake to promote tsunami risk and awareness.**
		711 - Promote hazard awareness through public displays such as tsunami and 1931 earthquake displays and produce hazard education material	Achieved **The HBCDEM Group primarily promotes hazard awareness through East Coast LAB (Life at the Boundary) a collaborative project with scientists, emergency managers, experts and stakeholders across the East Coast to make it easy and exciting to learn more about the natural hazards that can affect residents. The National Aquarium hosts 'The LAB' as part of East Coast LAB which focuses on plate boundary risks including tsunami, earthquake, volcanic and coastal hazard risks. - There is supporting educational ECLAB school programme run through the National Aquarium and materials on the website. The HB Museum also maintains a 1931 display.**
		711 - Prepare and implement a communications plan to highlight target hazards in a promotion	Achieved **The HBCDEM communications plan, reviewed February 2018, focuses on earthquake and tsunami risks, and has a monthly communication activity plan.**

Level of Service Statement HBRC will reduce the impact of long term natural and man-made hazards to life and property, eliminating these risks if practicable, and if not seek the reduction of their impact			
Level of Service Measures	**Performance Targets**	**Required Action**	**Progress Report (to 30 June 2018)**
Satisfaction of Territorial Authorities and professionals involved in land use planning decision making with the quality, format and relevance of hazard information supplied	All Territorial Authorities and planning professionals are satisfied with the quality, format and relevance of hazard information supplied/available as assessed by an evaluation and feedback form every 3 years	711 - Actively encourage best practice on hazard avoidance/mitigation by ensuring territorial authorities and professionals involved in land use planning decision making are informed of relevant hazards and risks	Achieved **HBCDEM has continued advocacy for regional policies and plans in Hawke's Bay to provide strong guidance for hazard risk avoidance. As the existing RPS is dated 1996 and is no longer fit for purpose around natural hazard management and is outdated, HBCDEM has recommended developing a risk-based approach to develop a Plan around Risk and is assisting with proposals. The HB Hazard Portal Steering Group involves TA land use planning staff ensuring they are informed of relevant hazards.**
		711 - Continue work to identify sources of hazards and ensure this information is collected, sorted, recorded, and stored in a relevant manner	Achieved **Hazard research work has continued on the HB Hazard Portal (GIS) which makes it easy for residents to find out which natural hazards might affect their properties. Following the completion of a HB liquefaction risk review, this information was included in the Hazard Portal November 2017. Work has continued to move the Hazard Portal to a new platform with Local Maps later in 2018, as agreed by the Local Authority Hazard Portal Steering Group.**

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Level of Service Statement HBRC will maintain and, where appropriate, increase the readiness of Hawke's Bay Civil Defence Emergency Management (HBCDEM) and the community to respond to a civil defence emergency			
Level of Service Measures	**Performance Targets**	**Required Action**	**Progress Report (to 30 June 2018)**
HBCDEM response to a Civil Defence emergency is coordinated, appropriate, effective and efficient	Maintain 3-yearly exercise programmes; and implement Corrective Actions that the HB CDEM group has responsibility for in accordance with the Corrective Action Plan	712 - Continue to implement Corrective Actions from the 2016 region-wide exercise in preparation for the next (2019) regional exercise	Achieved **Exercise programme approved by CEG and being implemented. Where appropriate corrective actions identified and implemented.**
The level of support given by the HBCDEM Group in directing and co-ordinating personnel and resources for response and recovery operations	An active Welfare Advisory Group meets at least 4 times a year	713 - Maintain and support the HB Welfare Coordination Group	Achieved **Meeting held in Nov/Feb/July and meeting scheduled for later in year**
		713 - Maintain and support the HBCDEM Joint Committee and Chief Executives Group	Achieved **Meetings held in accordance with Terms of References and Group Plan.**
The percentage of surveyed residents prepared to cope for at least three days on their own	90% residents have enough food stored for three days and had some way of cooking without electricity 75% have enough water stored as measured by three yearly survey	712 - Maintain Interagency Communication Group who develop and implement CDEM public education campaigns	Achieved **Completed 2017. Standard met**
		712 - Maintain and develop information and materials that support the Group Website, regular radio advertising and other promotional opportunities in accordance with communications strategy	Achieved **3 year survey completed last year and on track**
		712 - Support the National "Get ready, Get thru" programme and national "Get Ready" week	Achieved **Completed 2017. Standard met.**

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Attachment 1

Level of Service Statement Through the HBCDEM Group, HBRC will ensure that appropriate levels of response capabilities are in place and maintained across the Hawke's Bay Civil Defence Emergency Management (HBCDEM) Group			
Level of Service Measures	**Performance Targets**	**Required Action**	**Progress Report (to 30 June 2018)**
Established Emergency Management Plans including training and procedures, and the HB CDEM Group Plan are in place	Maintain Plans and Standard Operating Procedures and ensure Group Emergency Coordination Centres can be ready for operation within 6 hrs of event; and an approved Group Work Plan is developed and implemented based on the HBCDEM Group Plan	712 - Maintain 2 Group Emergency Coordination Centres (Hastings & Napier) which are ready for operation, with supporting Group Standard Operating Procedures	Partially Achieved **Review of operating model being implemented with some changes to SOPs and procedures. Move into temporary facility while existing coordination centre is upgraded has impacted on this work.**
		712 - Review Plans and procedures to confirm agency roles and responsibilities for good coordination	Partially Achieved **Review of operating model being implemented with some changes to SOPs and procedures. Move into temporary facility while existing coordination centre is upgrades has impacted on this work.**
		713 - Review and implement HB CDEM Group Plan	Partially Achieved **Review of operating model being implemented with some changes to staff operating models. Move into temporary facility while existing coordination centre is upgraded has impacted on this work.**
Maintain the CDEM Group's emergency management and civil defence capacity with the capability of effectively responding to an emergency event	Maintain established teams, training programmes, Emergency Operations Centre, Manuals, in accordance with HBCDEM Group Plan	712 - Conduct annual training for staff assigned to Group emergency management roles	Partially Achieved **Review of operating model being implemented with some changes to SOPs and procedures. Move into temporary facility while existing coordination centre is upgrades has impacted on this work.**
		712 - Effectively and efficiently manage any emergency event from initial warning until a safe situation returns	Partially Achieved **Review of operating model being implemented with some changes to staff operating models. Move into temporary facility while existing coordination centre is upgraded has impacted on this work. Substantial training underway.**

Item 14

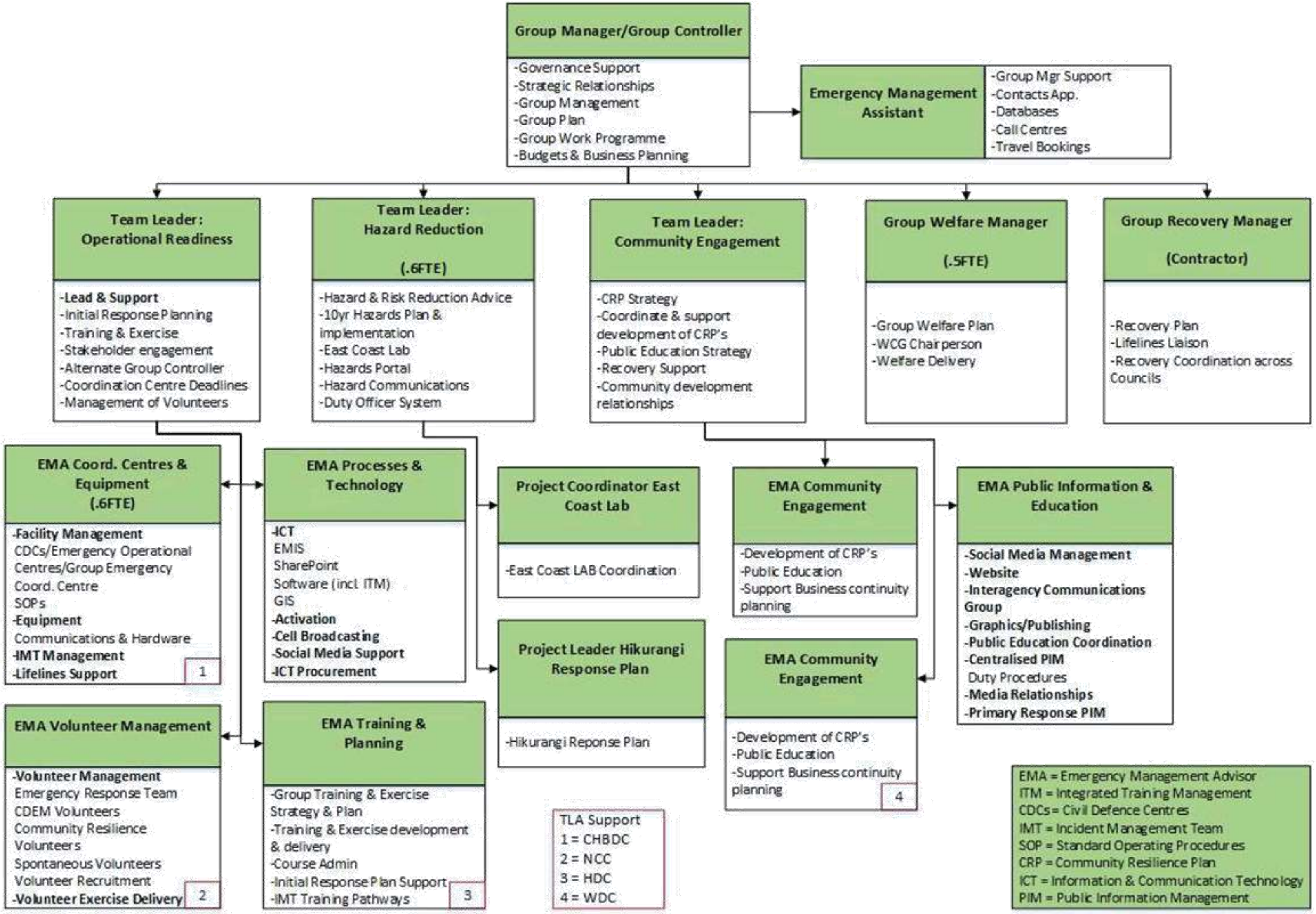
Attachment 1

Level of Service Statement

Through the HBCDEM Group, HBRC will ensure the recovery from emergencies is managed in accordance with the scale of the event

Level of Service Measures	Performance Targets	Required Action	Progress Report (to 30 June 2018)
Facilitate and maintain Lifelines Group who have effective input into Civil Defence Emergency Management (CDEM) Group plans. Dedicated CDEM Group Recovery Manager appointed. A relevant CDEM Group Recovery Plan is adopted and maintained.	The Lifelines Group provides active input to the maintenance, review and implementation of the CDEM Group Plan, exercises and event response.	712 - Support the Hawke's Bay Lifelines Group in developing and managing their work programme	Achieved **Ongoing - Lifelines Group engaged with CDEM Group**
		712 - Implement Group Recovery Plan including the support of local recovery planning	Achieved **Ongoing - Lifelines Group engaged with CDEM Group**
		712 - Support Territorial Authorities in completing Community Response Plans for specific communities	Achieved **Ongoing - Lifelines Group engaged with CDEM Group. AGM held in April 2018. Lifelines operators continue to support work financially and with other resources.**

Appendix 2 – Hawke's Bay CDEM Group office structure



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Attachment 1