

## Regional Council Workshop

**Date:** 19 June 2024  
**Time:** 10.30am  
**Venue:** Council Chamber  
Hawke's Bay Regional Council  
159 Dalton Street  
NAPIER

## Agenda

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2.	Funding model for the Clifton to Tangoio Coastal Hazards Strategy implementation	3

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**Subject: Funding model for the Clifton to Tangoio Coastal Hazards Strategy implementation**

**Reason for report**

1. This workshop follows the one held on 10 April 2024 and provides the opportunity for Council to receive and workshop recommendations from the Joint Committee on a funding model for Strategy implementation, ahead of formal consideration by the Council on 24 July.
2. Direction is also sought on whether any additional workshops before the 24 July meeting are required for further funding model development and refinement.

**Background**

3. The Council (and in parallel the Joint Committee) is working to a schedule of meetings and workshops to develop and confirm the Clifton to Tangoio Coastal Hazards Strategy for public consultation in October 2024.
4. **Attachment 1** provides the current timeline that captures this process.
5. Today's workshop is the second with Council this year. It follows a series of Joint Committee workshops which focused on funding model development:
  - 5.1. 12 May 2023 – confirm legislative requirements and principles.
  - 5.2. 10 November 2023 – present two test case coastal units to demonstrate a potential funding model approach.
  - 5.3. 15 March 2024 – workshop full funding model.
  - 5.4. 23 April 2024 – present revisions to the funding model in response to feedback.
  - 5.5. 17 May 2024 - confirm recommendations for HBRC.
6. The funding model uses Tonkin & Taylor's assessment of reduced risk to individual properties for both erosion and inundation as discussed at the previous workshop. The T&T assessment groups properties into Class 1, 2, 3 or high, medium, low. Maps of these groupings will be made available at the workshop.
7. The funding model will enable the Council to see the impact of the initial allocation of costs developed by the Joint Committee on average, outlier and specific properties (if required).
8. The Council can then modify the initial allocation in the dynamic model if it considers the impacts are too great at a property level.
9. Indicative costs and rates based on recent (2024) cost estimates for the proposed interventions are likely to be as presented in **Table 1** below.

**Table 1: Strategy Implementation Costs - Short Term**

		2023-24	2024-25	2025-26	2026-27	2027-28
<b>Annual opex</b>						
<b>Existing</b>		592,562	576,363	578,835	578,835	188,640
<b>Additional</b>						
operational expenditure including the following:			100,000	500,000	500,000	4,717,000
Consenting	All units		100,000	500,000	500,000	
Direct	Bayview					474,000
	Westshore					1,512,000
	Haumoana					912,000
	Te Awanga					1,819,000
Interest (Total)						619,185
Non Cash	Allowance for decommission costs					4,600
<b>Loan repayments</b>						322,869
<b>Proposed recovery of Total Rates &amp; existing recovery ex NCC</b>		592,562	676,363	1,078,835	1,078,835	5,852,294
Capex	Haumoana				5,082,325	
	Te Awanga				6,175,584	
Loan funding and loan balance					11,257,909	10,935,040

**Additional notes**

- 9.1. Existing costs at Westshore (\$592k) are currently split equally between NCC and HBRC
- 9.2. New OPEX in years 1 – 3 are for detailed design and consenting + other Strategy implementation tasks.
- 9.3. Year 4 costs include HBRC taking on 100% of Westshore nourishment costs
- 9.4. Costs estimates are conservatively high e.g. assumed worst case scenario for locations for gravel supply, but include many variables and uncertainties

**17 May Joint Committee Workshop Outcomes**

10. At the last workshop on 17 May, the Joint Committee confirmed the following to be considered by the Council:
  - 10.1. The overarching rationale to apply for funding allocations (discussed further below);
  - 10.2. The rationale for specific allocations within each unit; and
  - 10.3. That because the primary benefit of the strategy works is maintaining the value of properties including improvements, the recovery of the costs in each unit should be based on the **capital value** of each property being protected and the associated level of reduced risk.
  - 10.4. The approach favored by the Joint Committee is to develop a bespoke funding model for each costal unit, given the unique characteristics, interventions and costs at each location. An alternative was considered, in which northern and southern units are grouped together to form a northern and southern cell (Northern cell including Bayview and Westshore and Southern cell including Haumoana and Te Awanga). This alternative, while it will be presented in today's workshop, was not supported by the Joint committee because of the different levels of expenditure and benefit within each unit.

**The overarching rationale**

11. As noted in paragraph 10.1 above, a key outcome of 17 May Joint Committee workshop was to confirm an overarching rationale for apportioning costs for Strategy implementation.
12. This overarching funding rationale for each proposed coastal hazard mitigation project is summarised as follows:
  - 12.1. **70%** of the cost to implement the works are proposed to be met by all properties within the unit. These costs are then allocated to individual properties based on three categories being high, medium or low. The category assigned is based on type of works, number of rateable properties within each category, and the differential between the categories.
    - 12.1.1. High = currently exposed to inundation risk. Currently exposed to erosion risk. Direct and significant benefit from the proposed Strategy works.
    - 12.1.2. Medium = currently exposed to inundation risk. Exposed to erosion risk in future. Direct benefit from the proposed Strategy works.
    - 12.1.3. Low = some exposure to current inundation risks. Exposed to erosion risk in the longer term. Indirect benefits from the proposed Strategy works.
  - 12.2. **25%** of the cost to implement the works are proposed to be met by the subregion (Napier & Hastings), as the works preserve the value of council amenities that are close to the unit.
  - 12.3. The remaining **5%** is allocated to the whole region (including Wairoa & CHB), as there are assets that benefit the region that will be protected by the Coastal Strategy works.
13. Using this rationale as a baseline, modifications can be made to reflect the particular circumstances within each unit. These modifications were discussed by the Joint Committee as follows.

#### Bayview

14. No reasons identified to modify the overall approach. **Propose:**
  - 14.1. *70% Unit*
  - 14.2. *25% Subregion*
  - 14.3. *5% Region.*
15. *The distribution of unit costs between high, medium and low properties (to total 70%):*
  - 15.1. *High - Based on the small number of rateable properties (4) and the location of those properties, the average value of the properties; an allocation of 8% of unit costs is appropriate.*
  - 15.2. *Moderate - Based on the small number of rateable properties (12) and the location of those properties, the differential of 50% between high and medium: an allocation of 12% of unit costs is appropriate.*
  - 15.3. *Low - Based on the large number of properties, the level of benefit, and the average cost impact, the remaining 50% of unit costs is appropriate.*

#### Westshore

16. Modification proposed to the regional allocation as there are additional assets (e.g. Airport) that benefit the region that will be protected by the Coastal Strategy works. **Propose:**
  - 16.1. *55% Unit*
  - 16.2. *10% Napier area*
  - 16.3. *25% Subregion*
  - 16.4. *10% Region.*
17. *The distribution of unit costs between high, medium and low properties (to total 55%):*

- 17.1. *High - All properties that are in this category are recreational or other reserves, and therefore the benefit is received by all properties within the Napier area.*
- 17.2. *Moderate - Based on the number of rateable properties (29) and the location of those properties, an allocation of 5% of unit costs is appropriate.*
- 17.3. *Low - Based on the large number of properties, the level of benefit, and the average cost impact, the remaining 50% of unit costs is appropriate.*

### **Haumoana**

- 18. No reasons identified to modify the overall approach. **Propose:**
  - 18.1. *70% Unit*
  - 18.2. *25% Subregion*
  - 18.3. *5% Region.*
- 19. *The distribution of unit costs between high, medium and low properties (to total 70%):*
  - 19.1. *High - Based on the number of rateable properties (25) and the location of those properties, the average value of the properties; an allocation of 12.5% is appropriate.*
  - 19.2. *Moderate - Based on the number of rateable properties (42) and the location of those properties, the differential of 60% between high and medium: an allocation of 12.5% is appropriate*
  - 19.3. *Low - Based on the large number of properties, the level of benefit, and the average cost impact, the remaining 45% of unit costs is appropriate.*

### **Te Awanga**

- 20. No reasons identified to modify the overall approach. **Propose:**
  - 20.1. *70% Unit*
  - 20.2. *25% Subregion*
  - 20.3. *5% Region.*
- 21. *The distribution of unit costs between high, medium and low properties (to total 70%):*
  - 21.1. *High - Based on the number of rateable properties (40) and the location of those properties, the average value of the properties; an allocation of 15% is appropriate.*
  - 21.2. *Moderate - Based on the number of rateable properties (131) and the location of those properties, the differential of 81% between high and medium: an allocation of 40% is appropriate*
  - 21.3. *Low - Based on the large number of properties, the level of benefit, and the average cost impact, the remaining 15% of unit costs is appropriate.*

### **Summary**

- 22. **Table 2** summarises this outcome for all units.

**Table 2: Summary of Funding Model Allocations**

	Bayview	Westshore	Haumoana	Te Awanga	Range	
<b>Unit</b>	<b>70.0%</b>	<b>55.0%</b>	<b>70.0%</b>	<b>70.0%</b>	55.0%	70.0%
High	8.0%		12.5%	15.0%	8.0%	15.0%
Moderate	12.0%	5.0%	12.5%	40.0%	5.0%	40.0%
Low	50.0%	50.0%	45.0%	15.0%	15.0%	50.0%
Napier area		10.0%				
<b>Subregion (Napier &amp; Hastings areas)</b>	<b>25.0%</b>	<b>25.0%</b>	<b>25.0%</b>	<b>25.0%</b>		
<b>Regional (including Wairoa &amp; CHB)</b>	<b>5.0%</b>	<b>10.0%</b>	<b>5.0%</b>	<b>5.0%</b>		
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>		
<b>Differential between the categories</b>						
Moderate to High	50.0%	N/A	59.5%	81.4%		
Low to Moderate	6.6%	46.0%	29.2%	22.8%		

23. It is highlighted that there was some substantial debate at the Joint Committee about the difficulty associated with how the percentage allocations for high, medium and low benefit properties are shown, and how these can be communicated effectively. The concern is that the allocations appear to not follow any logical rationale e.g. at Bayview, the proposed allocations are 8% high, 12% medium, 50% low; this appears to suggest that the lowest benefit properties are paying the highest proportion.
24. This outcome is a factor of the number of properties within each category. Taking the Bayview example, there are only 4 properties in the high benefit category, so while at a properly level they are paying substantially more than those in the medium category, the overall contribution to the total costs of reducing risks is only 8%.
25. This issue will be expanded on and discussed during the workshop.

**Next steps**

26. It is the intention that the current draft of the funding models and the principles that have been developed by the Joint Committee are considered and refined in today's workshop. Alongside the principles, at this workshop indicative rating information will be made available.
27. At the meeting with the Council on 31 July, refinements as agreed today will be presented back, together with a full consideration of rating impacts at a property scale.
28. It is proposed that the full Strategy for consultation including the final funding model will be considered at the Council meeting on the 28 August.
29. As part of Strategy adoption, the Council will need to meet the requirement of section 16 LGA (requirement for new activity by a Regional Council), and amendment to the Revenue and Financing Policy to reflect the Strategy. The next step would be an amend the Long Term Plan (currently a 3 year plan).
30. Included in the amendment will be an indicative plan for both expenditure and rating.
31. One important consideration of the amendment is the introduction of rates. An option that will need to be considered is the intention that rates for each unit will be set in the Annual Plan following the lodging of the resource consent for each intervention. This will not be for the full amount, but an amount that reflects a percentage of the final amount with the intention of full recovery at the time the capital works are completed. This will avoid a sharp increase in rates

and reduce the need for Council to borrow. Waiting for a resource consent to be lodged provides more certainty as to the costs and timing of the works.

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**Attachment/s**

**1** [↓](#) Clifton to Tangoio Coastal Hazards Strategy 2120 - Timeline



