

Proposed LTP Amendment – This document contains extracts from the 2018-28 Long Term Plan that have changed as a result of the Napier Port proposal. Changes are highlighted in green.

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 Tahī | Tō Tātau Taiao.

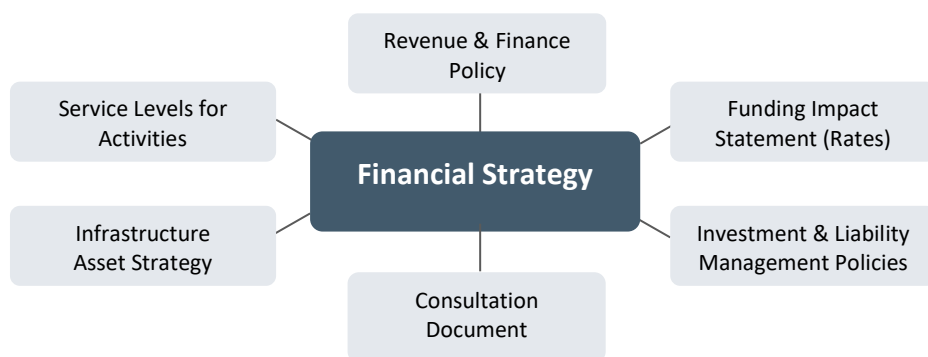
1. Introduction

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 form 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 both diversify 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.

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.

3.4 Napier Port Capital Structure

Council is 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.

The 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 significant funds in order to enable the Port to continue to meet growing demand. The Port needs around \$323 million of investment over the next decade. A new wharf is the first step in this investment programme and will 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 45% minority stake in the Port on the New Zealand Stock Exchange. 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 sharemarket float. The numbers in this financial strategy are modelled on a 45% sale of shares.

Therefore dividends will be received based on 55% ownership of from year 2 of the LTP. Capital released from the IPO will be invested to produce a return, which 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.

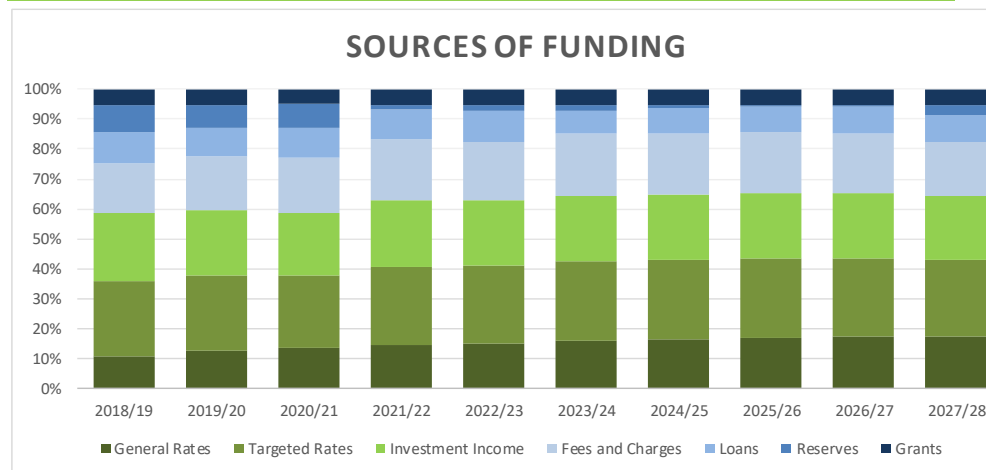
4. Funding

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.

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

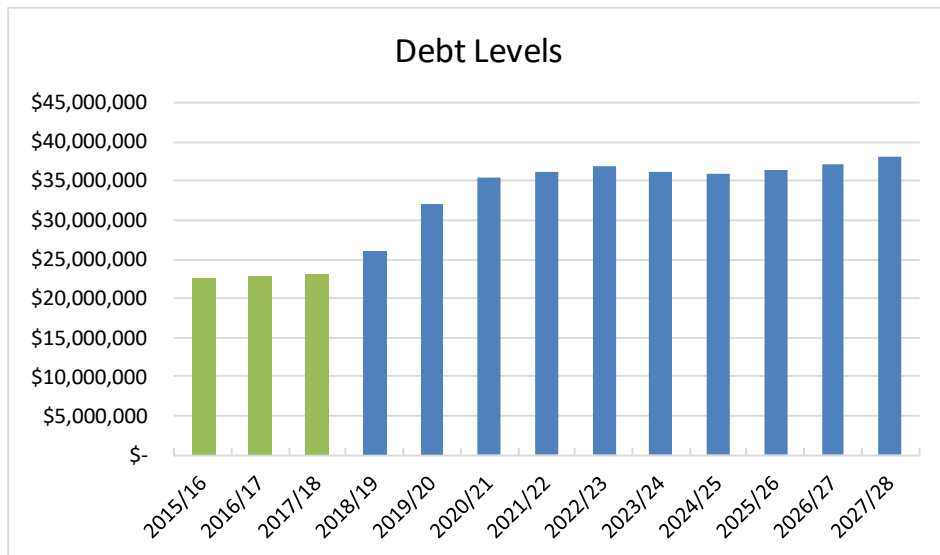
HBRC has historically been able to keep general rates at a minimum as they are subsidised by investment income effectively providing these returns back to the regional community.

A significant portion of investment income is derived from HBRC’s investment in HBRC Ltd which owns Napier Port. This ownership has been at 100% but is proposed to be 55% under an 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.

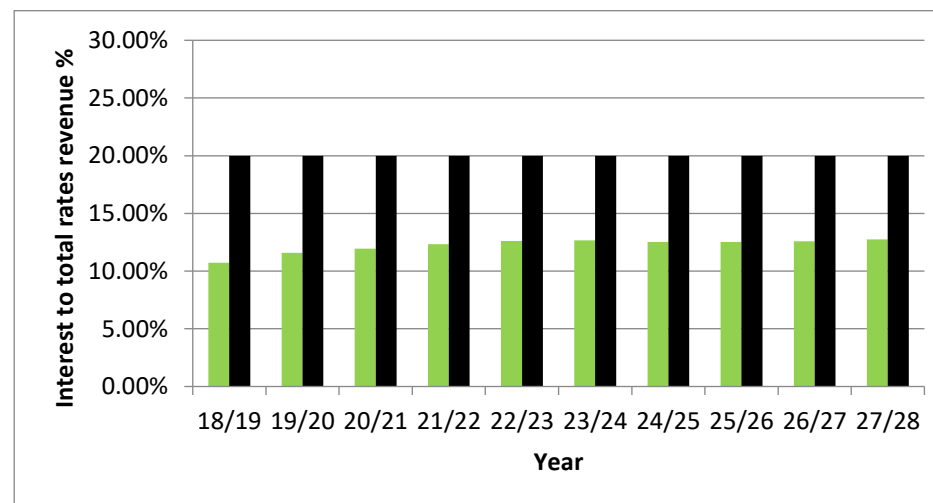
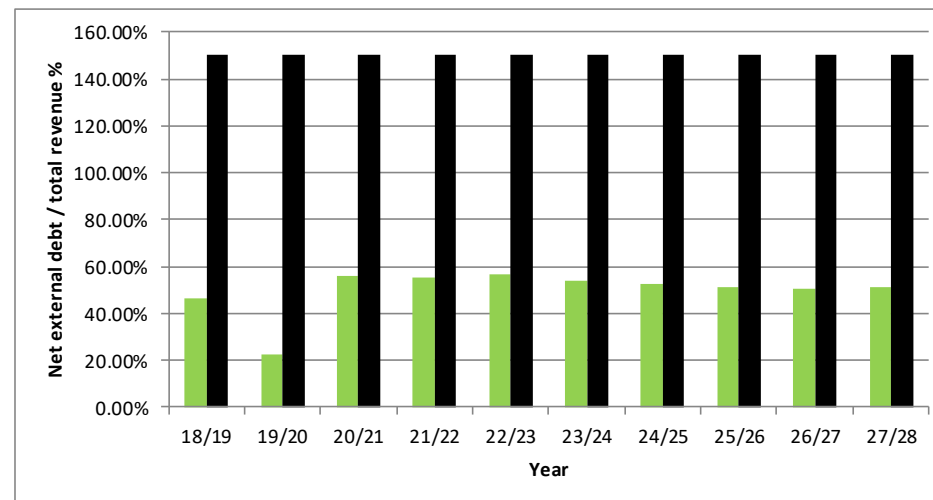


Limits on Debt

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%

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



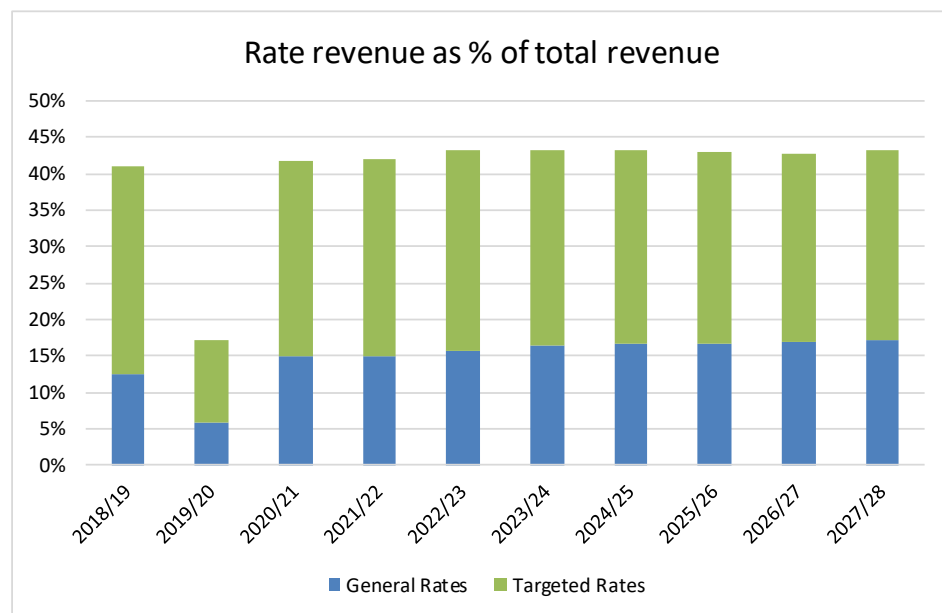
4.4 Rates

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



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.

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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

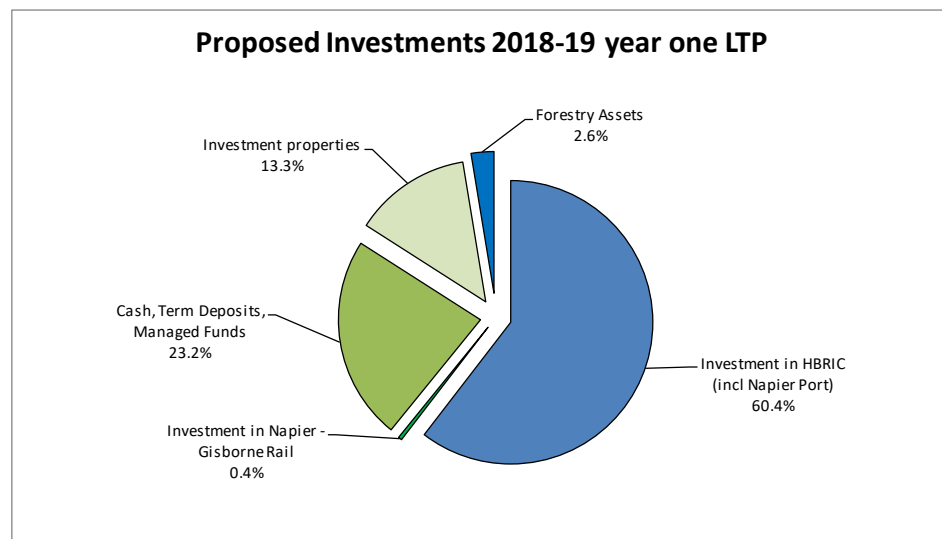
Projected Number of Rating Units										
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Rating Units	71,408	71,586	71,765	71,944	72,124	72,304	72,485	72,666	72,848	73,030

5. Investment Strategy

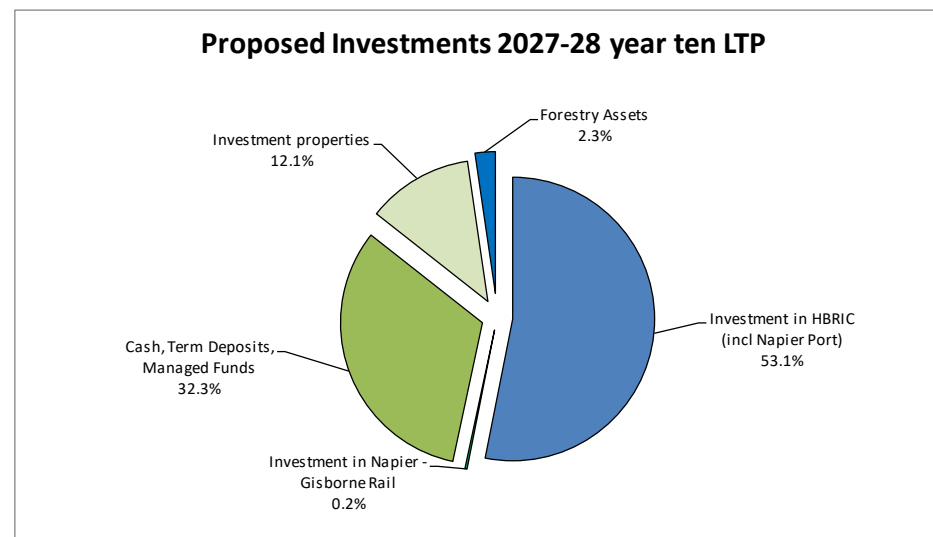
5.1 Financial Strategy for HBRC's Investment Portfolio

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 has been 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 55% under a shared ownership structure.**

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

Dividends payable to HBRIC 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 HBRC 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

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.

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 45% 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. HBRC'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 met through the float of 45% 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 there is room for further dilution of the 55% shareholding. 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 met 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.

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Investments	Assumption	Risk to Assumption	Level of Uncertainty	Reasons and Financial Impact
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 up to 49%. While this should only provide for more residual funds 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.

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Investments	Assumption	Risk to Assumption	Level of Uncertainty	Reasons and Financial Impact
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 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.
Asset Revaluations	Asset value adjusters have been developed from a combination of external and	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

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	industry knowledge and previous actual results			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.

6. Infrastructure Assets

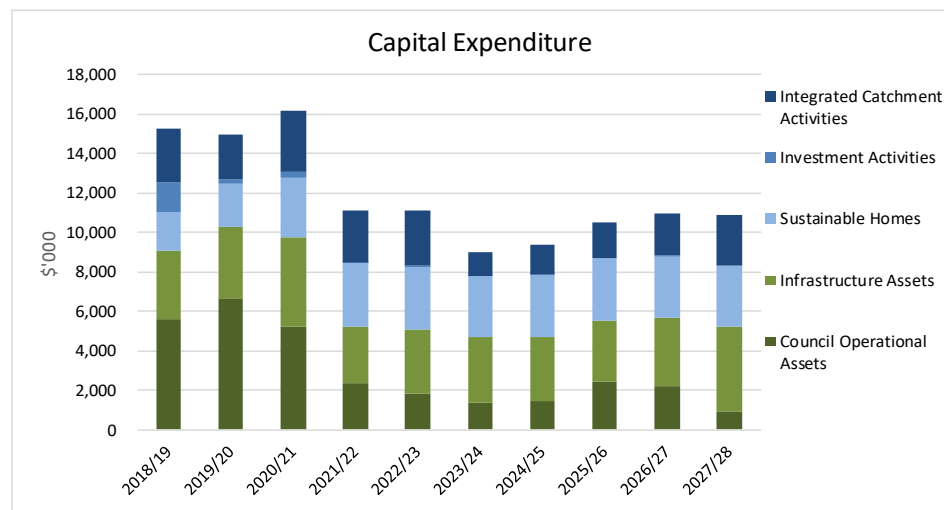
HBRC manages infrastructure assets through the 30 year Infrastructure Strategy (refer Part 4). The financial budgets incorporate the key issues and responses from this document.

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.

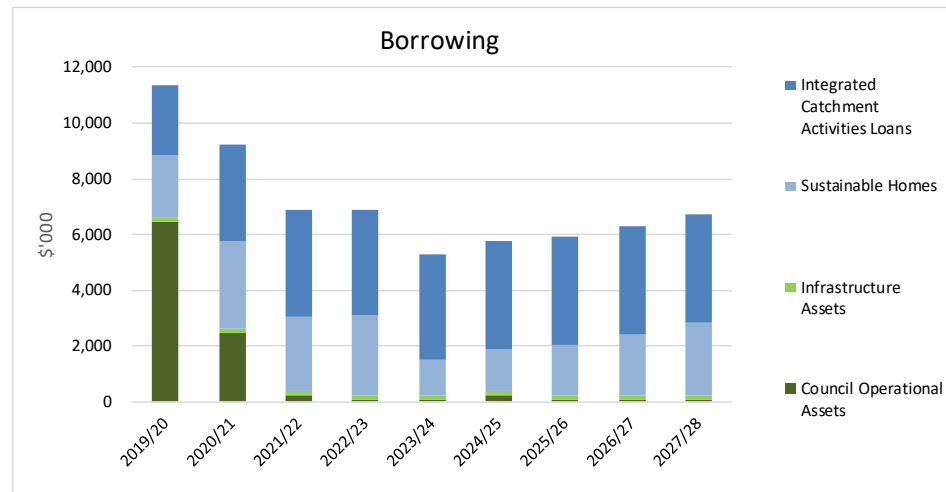
Community Loans include the Sustainable Homes programme and the Integrated Catchment Activities for Riparian planting and Afforestation

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.



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.

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 (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)	11.34%	66.17%	15.76%	17.27%	15.97%	16.63%	17.63%	18.59%	19.58%	19.60%
Return on Investments (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)	3.94%	20.93%	3.41%	3.46%	3.25%	3.06%	3.14%	3.27%	3.16%	3.21%
Rates to Total Revenue (This metric shows the percentage of HBRC's total revenue that is collected through rates).	44.39%	17.61%	44.91%	45.11%	46.72%	46.51%	46.57%	46.42%	46.23%	46.63%
General Rates to Total Rates (This metric shows the percentage of HBRC's total rates revenue that is collected through general rates).	30.45%	33.53%	35.53%	35.63%	36.32%	37.97%	38.46%	38.99%	39.62%	39.94%
Capex to Total Cash Payments (This metric shows the proportion of total cash payments that has been spent on fixed assets).	11.27%	6.28%	12.36%	7.35%	7.10%	6.72%	6.68%	7.64%	7.59%	6.78%
Total Finance Expense to Operating Expenditure (Interest on Borrowings and payments to ACC for leasehold cashflows)	4.92%	5.53%	5.85%	6.17%	6.41%	6.46%	6.47%	6.51%	6.58%	6.71%
Interest Expense on Bank Loans to Operating Expenditure (Interest in Borrowings only)	2.67%	3.16%	3.48%	3.72%	3.90%	3.99%	4.06%	4.16%	4.23%	4.36%
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													
	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)

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Forecast Financial Statements

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	

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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 expenses	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	

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Notes to the Financials

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												
<i>Cash to be provided from:</i>												
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
<i>Cash to be applied to:</i>												
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												
<i>Cash to be provided from:</i>												
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
<i>Cash to be applied to:</i>												
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												
<i>Cash to be provided from:</i>												
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
<i>Cash to be applied to:</i>												
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

Notes to the Financials

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													
<i>General Funding Rates</i>													
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
<i>Targeted Rates</i>													
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

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

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) <i>[From Cost of Service Statements]</i>													
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 <i>[From Statement of Comprehensive Revenue and Expense]</i>													
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)
<i>Add Back:</i>													
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 <i>[From Statement of Comprehensive Revenue and Expense]</i>		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		-	-	-	-	-	-	-	-	-	-	-	-
<i>Less:</i>													
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 <i>[From Statement of Comprehensive Revenue and Expense]</i>													
Reserves Funding	6	5,523	67,370	8,867	(81,666)	5,812	2,087	2,850	1,581	350	324	(403)	(220)
<i>Less:</i>													
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

Note 9 – Council Reserve Funds

NOTE 9 - Council Reserve Funds																		
Accumulated Funds	Infrastructure Asset Renewal	Wairoa Rivers & Streams	Special Scheme	Investment Income Equalisation	Coastal Marine Area	Asset Replacement	Regional Disaster Damage	Scheme Disaster Damage	Clive River Dredging	Tangoio Soil Conservation	Maunga-haruru Tangitu	Future Invmt Fund	Sale of Land Non-Invmt	Rabbit	Ngati-Pahawera	Total Other Reserves	Fair Value Reserves	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(17)	
(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'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

*There are differences between the opening balances for reserves as at 1 July 2018 in the LTP compared to the closing balances as at 30 June 2018 in the Annual Plan due to timing of these documents and the actual tractions that took place in the 2016/17 financial year.

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

5. Investment Income equalisation reserve A reserve established to smooth out investment income receipts so that fluctuations in Council's general funding rates are minimised.

13. Future Investment Fund A reserve established to hold the funds to be reinvested in accordance with Council's treasury policy

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.

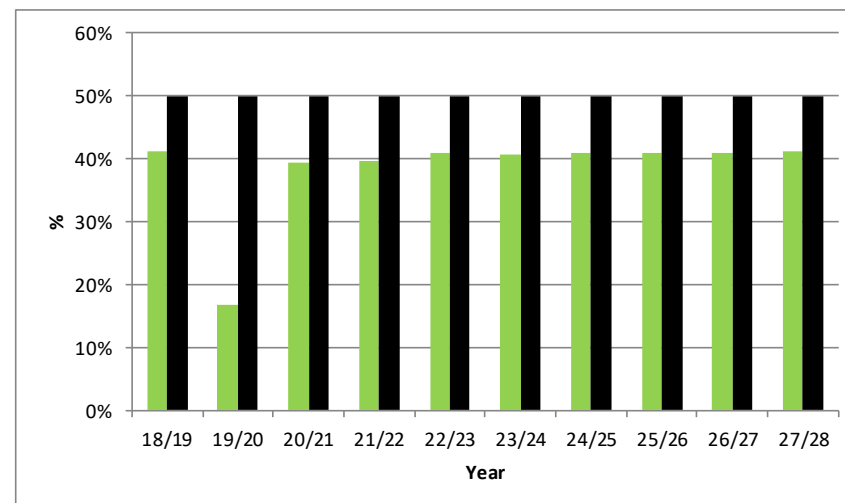
Rates Affordability Benchmark

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.



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



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Financial Reporting Benchmarks

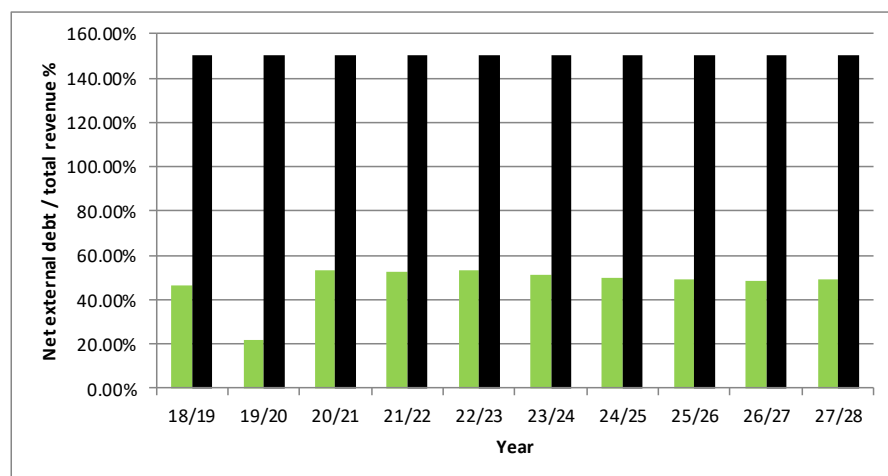
Debt Affordability

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

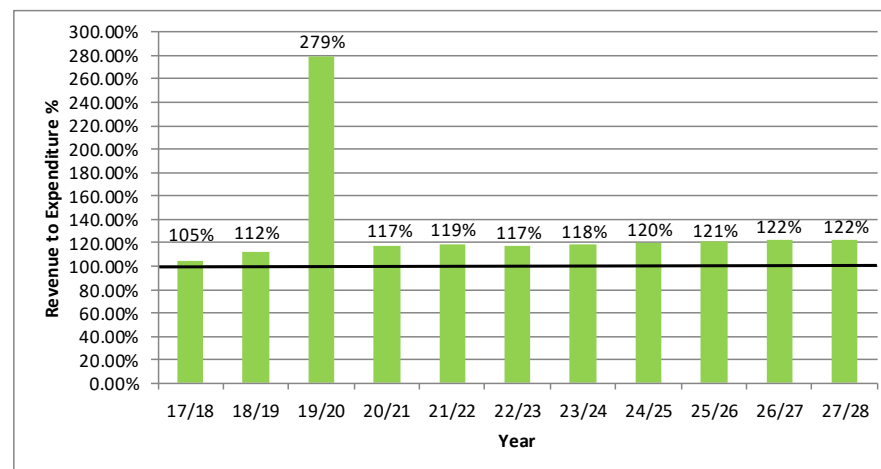


Proposed debt (at or within limit)
 Proposed debt (exceeds limit)
 Quantified limit on debt

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.



Benchmark met
 Benchmark not met

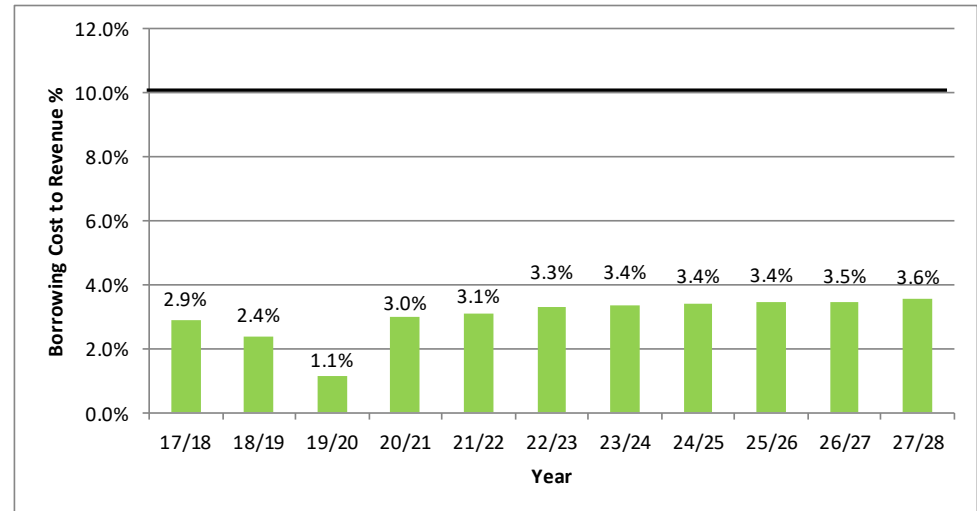
Part 6 - Financials | Wāhanga 6 - Pūrongo Pūtea

Financial Reporting Benchmarks

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



Hawkes Bay Regional Council: Funding Impact Statement for 2018-2028 (Whole of Council)											
	Annual Plan 2017/18	Year 1 LTP 2018/19	Year 2 LTP 2019/20	Year 3 LTP 2020/21	Year 4 LTP 2021/22	Year 5 LTP 2022/23	Year 6 LTP 2023/24	Year 7 LTP 2024/25	Year 8 LTP 2025/26	Year 9 LTP 2026/27	Year 10 LTP 2027/28
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Sources of operating funding											
General rates & uniform annual general charges, rates penalties	4,300	6,952	8,262	9,393	9,714	10,230	10,873	11,327	11,830	12,411	12,853
Targeted rates	14,824	15,877	16,377	17,042	17,553	17,939	17,766	18,121	18,512	18,917	19,327
Subsidies & grants for operating purposes	3,630	3,368	3,430	3,480	3,545	3,612	3,687	3,759	3,841	3,926	4,011
Fees & charges	7,000	9,198	9,925	10,739	10,978	10,645	10,899	11,046	11,226	11,407	11,092
Interest & dividends from investments	12,620	13,297	98,602	15,808	15,472	15,351	15,834	16,473	17,452	18,556	19,153
Local authorities fuel tax, fines, infringement fees & other receipts	2,804	2,732	3,344	2,395	3,185	2,514	2,513	2,505	2,505	2,546	2,577
Total operating funding	45,178	51,424	139,940	58,857	60,447	60,291	61,572	63,231	65,366	67,763	69,013
Applications of operating funding											
Payments to staff & suppliers	40,371	44,332	45,478	47,238	47,454	48,251	49,013	49,966	51,275	52,685	53,837
Finance costs	2,648	2,447	2,854	3,161	3,363	3,552	3,630	3,693	3,800	3,942	4,099
Other operating funding applications	-	-	-	-	-	-	-	-	-	-	-
Total applications of operating funding	43,019	46,779	48,332	50,399	50,817	51,803	52,643	53,659	55,075	56,627	57,936
Surplus / (deficit) of operating funding	2,159	4,645	91,608	8,458	9,630	8,488	8,929	9,572	10,291	11,136	11,077
Sources of capital funding											
Subsidies & grants for capital expenditure	1,538	1,882	2,345	2,626	3,134	3,204	3,595	3,651	3,651	3,602	2,881
Development & financial contributions	-	-	-	-	-	-	-	-	-	-	-
Increase / (decrease) in debt	7,368	2,758	6,197	3,346	624	795	(841)	(45)	303	719	1,124
Gross proceeds from sale of assets	168	1,006	1,274	482	1,443	374	395	194	1,089	606	158
Lump sum contributions	-	-	-	-	-	-	-	-	-	-	-
Other dedicated capital funding	-	-	-	-	-	-	-	-	-	-	-
Total sources of capital funding	9,074	5,646	9,816	6,455	5,201	4,373	3,149	3,800	5,043	4,927	4,163
Applications of capital funding											
Capital expenditure:											
- to meet additional demand	3,016	435	2,160	3,160	160	160	160	160	160	160	160
- to improve the level of service	1,865	2,090	2,080	2,195	2,476	2,517	2,447	2,505	2,581	3,268	3,417
- to replace existing assets	3,506	6,536	6,251	4,679	2,676	2,483	2,076	2,046	2,829	2,327	1,669
	8,387	9,061	10,491	10,034	5,312	5,160	4,683	4,711	5,570	5,755	5,246
Increase / (decrease) in reserves	(64,932)	(4,970)	85,987	(2,001)	3,022	1,040	2,333	3,211	4,055	4,157	3,491
Increase / (decrease) of investments	67,778	6,200	4,946	6,879	6,497	6,661	5,062	5,450	5,709	6,151	6,503
Total application of capital funding	11,233	10,291	101,424	14,912	14,831	12,861	12,078	13,372	15,334	16,063	15,240
Surplus / (deficit) of capital funding	(2,159)	(4,645)	(91,608)	(8,458)	(9,630)	(8,488)	(8,929)	(9,572)	(10,291)	(11,136)	(11,077)
Funding balance	0	0	0	0	0	0	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	8,488	8,929	9,572	10,291	11,136	11,077
Depreciation & amortisation expense	(2,739)	(2,925)	(3,259)	(3,599)	(3,726)	(3,569)	(3,536)	(3,425)	(3,308)	(3,247)	(3,137)
Reduction in ACC Leasehold Liability	1,035	917	936	917	896	873	814	756	706	678	647
Fair value gains on investments	1,737	3,195	3,315	3,502	3,642	3,834	4,032	4,243	4,462	4,699	4,942
Operating Surplus After Income Tax per Statement of Comprehensive Revenue and Expenditure	2,192	5,832	92,600	9,278	10,442	9,626	10,239	11,146	12,151	13,266	13,529

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

HBRC Ltd

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

HBRC 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 HBRC 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 HBRC 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 HBRC Ltd are outlined in the following tables.

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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 assumes a 45% floating of Napier Port on the New Zealand stock exchange of Napier Port in year 2. This would reduce the ownership in Napier Port through HBRIC Ltd to 55% in 2019-20.

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.

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

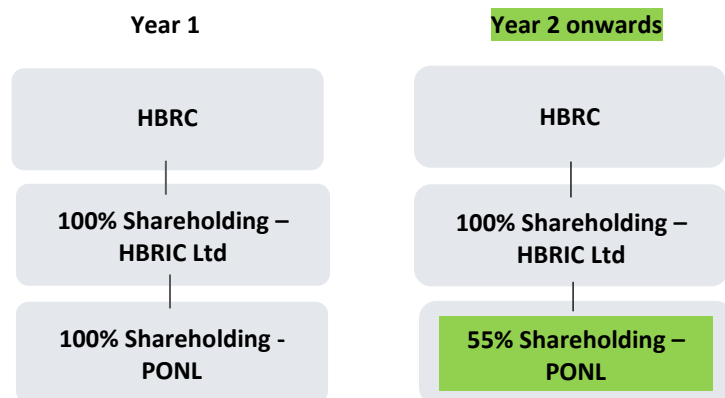
HBRC has a range of property, equity, and cash investments that provide a source of income not related to any specific function or activity. HBRC's investment assets are its 100% shareholding in the Hawke's Bay Regional Investment Company Limited (HBRIC Ltd) (HBRIC owns 100% of Napier Port in year 1 and then 55% from year 2 onwards after an IPO transaction); Napier leasehold property investments; Forestry assets, managed funds 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.

Introduction

In February 2012 Hawke’s Bay Regional Council (HBRC) established a Council Controlled Trading Organisation called the Hawke’s Bay Regional Investment Company (HBRIC Ltd). HBRC has a 100% shareholding in HBRIC Ltd which has a 100% shareholding in the subsidiary company, the Port of Napier Limited (PONL) in year 1 with the assumption that in year 2 onwards this would change to 55% shareholding in PONL after a 45% floating of the company on the New Zealand stock exchange.



Policy and Objectives in Relation to Ownership and Control

HBRC will retain beneficial control of Napier Port through its wholly owned investment company. In the event it contemplates further reducing its interest in Napier Port from its proposed 55% shareholding to not less than 51% (i.e. still retaining control) by selling shares to a third party (or parties) or by changing how the Napier Port is managed and operated, it must comply with the provisions of Section 97(1)(b) of the Local Government Act 2002.

HBRIC Ltd and PONL are both strategic assets of HBRC and will therefore require a special consultative process if there was to be any further dilution of the shareholding, or any other major capital transaction was to occur.

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.

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.
- 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 Napier Port.
- 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

Consolidated Performance Targets	
Performance Indicator	Target
Net debt to net debt plus Equity	<40%
Interest cover (EBIT/Interest Paid)	>3x
EBITDA/Total Assets	9%
Return on Shareholders’ Funds	5%
Notes: EBIT = Earnings Before Interest and Tax EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation	

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 HBRC 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 a 45% minority stake in the Port on the New Zealand Stock Exchange. This LTP assumes 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

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Significant Forecasting Assumptions

\$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.

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 indicators who are the providers HBRC uses for annual remuneration reviews.

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.

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 proposed that in year 2 HBRIC reduces that holding to 55% under a shared ownership structure.

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

Dividends payable to HBRIC 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
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

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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 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 cash funds on term deposit it is proposed to make these assets work harder and provide higher returns in a managed fund. 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 45% 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.

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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 met through the float of 45% 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 there is room for further dilution of the 55% shareholding. 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	If expectations are not met 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.

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Significant Forecasting Assumptions

Investments	Assumption	Risk to Assumption	Level of Uncertainty	Reasons and Financial Impact
	the New Zealand Stock Exchange			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. 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 up to 49%. While this should only provide for more residual funds 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

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Significant Forecasting Assumptions

Investments	Assumption	Risk to Assumption	Level of Uncertainty	Reasons and Financial Impact
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.

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.

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Significant Forecasting Assumptions

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.

