

Enabling the sustainable growth of Hawke's Bay

Questions and answers

- **What exactly is this report?**

Hawke's Bay Regional Council has pulled together a panel of people and charged them with reviewing the Council's capital structure with a focus on:

- how it should fund significant intergenerational environmental initiatives across the region
- how it could diversify risk to ratepayers through having 74 per cent of Council's investments in one asset (Napier Port)
- how it can fund the development of the Port of Napier to enable it to support the growth in the Hawke's Bay economy.

- **What decisions have been made?**

No decisions have been made by Council. Nor will any decisions be made without fully consulting the local community. All this report does is recommend Council further investigate certain options.

- **What are the principle recommendations?**

The primary recommendations are that:

- Council use its balance sheet to fund intergeneration environmental initiatives, through prudent borrowing (Council currently has almost no debt)
- Council investigates further the possibility of selling a minority stake in the Port to a cornerstone partner to free up funding for the Port's growth and diversify Council's investment portfolio
- Council investigates a lease option for the Port, through which a commercial operator pays a fee to Council for a long-term lease of the Port
- Council use any funds released from any changes in the Port's capital structure to set up a future investment fund. With the original capital protected, returns from this fund would continue to offset rates, as per Port dividends, and potentially enable funding of further environmental initiatives.

- **What are minority stake and lease options?**

The report recommends further investigating the sale of a minority stake in the Port to a cornerstone partner and a long-term operating lease arrangement.

A minority stake means that HBRC would sell a minority share in the Port, ensuring the retention of at least 51 per cent of the shares and the majority of directors.

Under a long-term lease, the Port is leased to an operator who pays an upfront fee to operate the Port and undertakes all required capital investment. This fee would offset any foregone dividends, enabling rates to be maintained, and the assets would be returned to Council at the end of the lease period. A typical lease period might be approximately 50 years.

- **Why does the Port need to grow?**

Simply because the Port enables the success of Hawke's Bay's regional economy which will grow rapidly over the next decade and beyond. Cargo volumes through the Port will increase by approximately 50 per cent over the next 10 years and investment is needed to ensure the Port can continue to connect cargo owners with global markets in a highly competitive and evolving sea freight business. As just one example, container ships continue to increase in size so, to accommodate an increasing number of these ships, the Port requires the construction of Wharf Six.

The Port is critical to the Hawke's Bay economy. It is associated with 27,000 full and part-time jobs and approximately half of the region's Gross Regional Product.

- **What does diversifying risk mean?**

HBRC, on behalf of ratepayers, has essentially one productive asset in the Port. That's like a KiwiSaver provider investing in one company. It's in the best interests of ratepayers for this investment risk to be more spread. Currently a natural disaster event at the Port of Napier would be 100 per cent born by ratepayers and this is not sensible risk management.

- **What's wrong with Hawke's Bay's natural environment?**

Unfortunately, the Hawke's Bay's natural environment has not always been sustainably managed. Much of the land is erosion prone which impacts waterways, a number of which have become degraded. Council is committed to funding a range of intergenerational environment initiatives to clean up and protect the Hawke's Bay's natural environment and this report recommends these initiatives be funded through prudent borrowing and/or any excess funds released from a minority sale or concession lease of the Port (above the preserved capital level).

- **Why are you releasing this report now?**

Council has decided to release it as soon as possible after receiving it in the interests of transparency and in the expectation this will start a conversation. It is a report from a panel of people, including independent members, and Council will consider it before making its own decision around the capital structure it believes is in the best interests of Hawke's Bay. The first report from this panel was released publicly in December 2017.

- **What will happen when Council decides on a preferred option for its capital structure?**

Council will then begin a special consultation process with the people of Hawke's Bay to discuss the option and the other options it has considered. No decisions will be made until everybody has had an opportunity to have their say.

- **When will that happen?**

That's likely to begin around the middle of the year.

- **Is this separate to the long-term-plan?**

Yes. This process was mentioned in the Regional Council's 10-year document, Facing Our Future 2018 – 2028. Consultation on the 10-year / long-term plan closes on 23 April.

- **Who are the panel members?**

It was a panel of people with different background, including two independent members. The group consisted of: Chris Tremain (Chair, HBRIC), Rex Graham (Chair, HBRC), Neil Kirton (HBRC), Alasdair MacLeod (Chair, Port of Napier), Jim Scotland and David Shand.