

From: [redacted]
To: [Leigh Collecutt](#)
Cc: [redacted]
Subject: FW: (No subject)
Date: Thursday, 27 June 2019 1:54:40 PM
Attachments: [image687222.png](#)
[image867367.png](#)
[image002537.png](#)
[image908651.png](#)
[image212951.png](#)
[Discussion Paper - Council Investment in CHB Water Holdings Limited.docx](#)



[redacted]
Information Services Officer
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210

06 857 8060

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Got an idea or feedback? Fantastic! You can [let us know here](#)



-----Original Message-----

From: Monique Davidson [mailto:xxxxxxx.xxxxxxxx@xxxxx.xxxx.xx]
Sent: January 22, 2019 9:30 AM
To: angusmabin@[redacted] [redacted]
Subject: (No subject)

As discussed

Ring me anytime with feedback

Monique

Discussion Paper – CHBDC Rural Ward Fund Investment – Commercial Structuring

Keeping the prospect of water storage alive in Central Hawke's Bay!

For many years Central Hawke's Bay has been immersed in a conversation about the future prospects of the Ruataniwha Water Storage Scheme. The reality is that the Ruataniwha Water Storage Scheme as proposed is unlikely to ever be fully implemented.

The requirement for water storage in some form is however required to not only ensure water security and resilience for the District, but to allow for future growth and economic development.

As a Council and key infrastructure provider responsible for ensuring the long term social, cultural, environmental and economic development of the District, the need for some form of investment in findings and implementing a solution to the current requirements and demands for water security will need to be made. The reality is the scale required to achieve the District and Regional wide outputs will require collaboration and partnership across a range of stakeholder groups.

What was learnt from the Ruataniwha proposal is no one entity alone will have the resources or ability to enable any water storage proposal of the required scale or scope alone.

How Council support such initiatives will vary and will need to be carefully managed as both a regulator and potential partner and funder of public funds.

Council have received a proposal from Water Holdings CHB Limited (Water Holdings CHB) seeking financial assistance to support it in completing a review of the Ruataniwha Intellectual Property so as to identify potential water storage solutions and commercialisation opportunities.

The proposal seeks \$250,000 in funding from Councils Rural Fund, this will be matched by funding from Government's Provincial Growth Fund and private investment made by Water Holdings CHB shareholders and partners.

Council have confirmed any such investment made into this proposal require public consultation and careful messaging and most importantly the optics of the proposal will need to clearly articulate the benefits to community from such an investment being made and most importantly corporate accountability with the expenditure of public funds.

Purpose of this Paper

The purpose of this paper is to provide Council with an assessment of potential commercial and legal structures for Council's investment into Water Holdings CHB proposed project.

The paper will provide a high level assessment of who Water Holdings CHB are, a review of the strategic/ policy fit for any investment by Council, a review of the structures available to Council for making the investment and recommendations on the preferred option as well as condition precedents for any investment being made.

We note the paper is a discussion document for Council's purposes only and further tax and legal advice should be sought, in a measured way.

Central Hawkes Bay Water Holdings Limited

Water Holdings CHB Limited is a limited liability company, 100% owned by private shareholders and describes itself as a conglomerate of community and business leaders in

Central Hawkes Bay with an interest in securing the long term and sustainable water security for the region.

The entity whilst a private business, promotes itself as being not for private profit from the assets which have been purchased; this is highly unlikely and the drivers will be strictly commercial.

Water Holdings CHB shareholding (of 9999 shares) is equally split between three shareholders being:

- Hugh Ricthie
- Gavin Streeter
- Tim Gliberston

In addition to the shareholder/ directors, Water Holdings CHB has an independent chair Agnus Mabin.

All shareholders are actively involved in local businesses throughout Central Hawkes Bay and the wider Hawkes Bay region.

A key question of the Director/ Shareholders is, following the validation of the IP, how will Water Holdings CHB implement and fund the proposal. The investment made by the Shareholders is relatively modest in the context of the overall investment that will be required and having visibility of this and their longer term strategy is recommended.

Proposed Investment.

The investment being sought by Water Holdings CHB from Council is for \$250,000, as aforementioned these funds are being matched by the shareholders/ private investors and a funding grant being sought from Governments Provincial Growth Fund (PGF).

Table 1. Provides a breakdown of the funding split that makes up the total proposed quantum of funds being sought.

Table 1. Water Holdings CHB Investment Split.

Funder	Quantum	Comment
Provincial Growth Fund	\$250,000	Not confirmed
Water Holdings CHB	\$100,000	Investment todate, purchasing IP
Other	\$50,000	To be confirmed from other partners
CHBDC	\$250,000	Council investment being sought
Total	\$650,000	

Councils Investment

It is proposed Council's funding will be made available via the Rural Ward Fund.

The purpose of the Rural Ward Fund is to provide targeted funding for key recreational and infrastructure projects.

As reported in Council 2017/18 Annual Plan the Ruataniwha Dam was supported by Council and viewed as a key infrastructure development from which Council would be seeking to take water to service communities needs.

In addition to providing a water source, the project as proposed was projected to result in significant economic benefit and Water Holdings CHB believe any such adaptation of the original proposal will have comparable 'scaled' benefits for the region and further economic development, as to a range of further value add outputs for the District and Region as a whole, that could include:

- Improved summer flows in the Tukituki River
- Improved river health and habitat
- There is a predicted increase of between 1.9-5.5% in current GDP (between \$130 to \$380million a year by full water uptake)
- The potential to create between 1,130 and 3,580 jobs across Hawkes Bay through increased farming activity and its flow-on impacts

(Based on RWSS benefits assessment)

Water Holdings CHB propose to use the funding sought from Council to review the intellectual property to examine two scenarios for water storage and distribution, being.

Option 1 – developing a full scale Makaroro Dam, providing for low flow allowances.

Option 2 – build a lower dam, with no provision of environmental flows and reduced regional impact.

We believe the investment proposed is consistent with the intent of the fund and the potential benefits to the district could be significant.

Strategic Alignment

Based on a review of Water Holdings CHP PGF application, the proposal, outputs and longer term benefits all strategically align with the Regional economic development strategy – Matariki, the CHB Water Taskforce objectives of providing security/ quality of supply of water across the District.

The proposal and the economic benefits of the proposal also aligns directly with Councils own development strategy Thrive. Which upon the successful implementation will result in further economic growth and development, will attract and retain business and whanau and will result in a environmentally responsible response to providing additional resilience and water security for the region.

Water Holdings CHB have also proactively engaged with mana whenua at a Taiwhenua level, who passed a motion at the most recent board meeting supporting the proposal and the benefits of the proposal (implementation) in increasing water in the Tukituki and tributaries.

We believe on this basis the project and proposal aligns with a key priority of Council and community buy in and support, including that of mana whenua is strong.

Commercial Structuring

The proposed investment being sought by Water Holdings CHB is not unique investment precedent There are multiple of examples whereby private/ public investment has been

made into large scale infrastructure/ social infrastructure projects by Government and Councils, where there is a direct tangible community benefit and return.

What is unique with Water Holdings CHB proposal is the level of investment made to date in validating and designing a scaled water storage development that could be practically implemented (\$25m of Intellectual Property).

In Council making any form of investment, whether by way of a grant, loan or as a direct investment; careful consideration needs to be given to how the funds will be used and what caveats or conditions will be imposed so as to ensure Council's position is protected. The nature of the caveats or conditions will largely depend on the commercial structure Council elects to choose.

There are a range of options for Council in making the investment proposed, the following options have been provided by independent advice and gives an overview of the varying options and recommendation for Council's perusal.

- Grant – A grant would comprise of a one off non repayable grant of monies provided as payment for a set of outputs. Payment can be made in advance, milestone or upon the successful completion of the contracted outputs.

The grant would be documented between the parties via a funding agreement. The funding agreement would set out the mechanism by which the investment would be made, timings for payments, requirements and outputs of the funding.

This approach is similar to how Government allocates its investment in similar activities.

- Loan – A loan can be made in a number of forms, being
 - Suspensory – A suspensory loan is generally a non repayable loan, that is dispensed over time or upon the completion of a set of agreed outputs. A suspensory loan normally is not repayable, however there can be mechanisms whereby repayment can be required.

In the instance of the investment being proposed this could include Water Holdings CHB commercialisation of the IP or the sale, divestment or transfer of IP or the company who holds the IP.

With a suspensory loan there is normally no requirement for a guarantee or security interest to be noted.
 - Non interest bearing – A non interest bearing loan is a repayable facility that accrues nil interest. In the instance of the investment proposed, the interest would be registered over the all of the IP and repayment could be time bound i.e. a set term or upon a agreed trigger being effected (implementation or divestment).

The legal and accounting structures around establishing such a facility would be a lot more complex than that of a grant or suspensory loan and the establishment and ongoing compliance requirements would be costly. The facility would also need to be accounted for as a liability on Council's books.

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If Council were going to pursue this option further legal and accounting advice on this matter would be required.

- Interest bearing loan – An interest bearing loan would see Council investments being treated as conventional loan facility at an agreed rate of return. The level of return could be based on Councils cost of borrowing plus an agreed basis points adjustment to cover the cost of administration. This is likely to be circa 3.5 to 3.7%.

The legal and accounting structures around establishing such a facility would be a lot more complex than that of a grant or suspensory loan and the establishment and ongoing compliance requirements would be costly, however recoverable via the cost of funding. The facility would also need to be accounted for as a liability on Councils books.

- Investment for ownership stake – An alternative to Council making a grant or providing a loan would be Council making a direct investment into the Water Holdings CHB for a shareholding in the entity and Councils ongoing role could be passive or active whereby it seeks a governance and decision making position in the entity.

The risk of assuming such a role will be an ongoing requirement or potential for further investment being required as to Councils role potentially becoming confused.

Overview

Whilst the investment being sought is not significant in the context of the overall potential opportunity, it is still a significant sum of monies for Council to consider and the final implementation and commercialisation of the IP will require a significant level of investment to be made. A level of investment the current shareholders are likely to require external inputs.

Council Officers feel the optics of providing the monies as a grant would not be well received by community and it is likely community will be far more receptive to the monies being treated as a loan. In terms of Council assuming an investment stake in Water Holdings CHB we believe this would be fraught with issues and there are a number of examples where Council's have ended up having to assume responsibility for further investment, delivery and ultimately the associated contingent liabilities.

In terms of the investment being treated as a loan, we believe the most appropriate mechanism would be for Councils investment into Water Holdings CHB to be a suspensory loan, with the following condition precedents for repayments or dispensation of liabilities:

Repayment:

- The sale or divestment of Water Holdings CHB.
- The transfer of IP to a subsidiary entity or third party, other than Council.

Dispensation:

- The development of water storage facilities and measureable economic benefits being created and realised; being:
 1. Water security (agreed m3 quantum).
 2. Employment.
 3. New business/ investment.
 4. The review of IP does not identify any tangible or financially sustainable water storage solution that can be implemented.

We believe if Water Holdings CHB do receive a dispensation under point 4 Council should as condition of the loan agreement have access to all IP obtained and developed by Water Holdings CHB as part of the investigation exercise.

The basis of payment of any funds we would also recommend are made on a milestone basis being the completion or satisfaction of agreed outputs. This will protect Council's position and the potential for any loss. It will also ensure if the initiative is not feasible there will be a short NO rather than a long NO with any unnecessary Council expenditure not occurring. This will also provide a feedback loop for reporting purposes.

In confirming the structuring of the commercials we would recommend Council and Water Holdings CHB agree the upfront Key Commercial Terms (KCT's) in advance of any funding agreement being confirmed. The KCT's will form the basis of the funding agreement.

This will also mitigate any unnecessary costs in drafting the agreements between the parties as well as confirm upfront and earlier the expectations of the two parties.

The KCT's will set out the requirements of the parties, expectations and key deliverables tagged to the funding. The KCT's will provide the framework for documenting the agreement.

In terms of recommendations in making any payment, suggested conditions are as follow:

1. Prior to any funds being released Water Holdings CHB provide a full work programme and budget for expenditure
2. Water Holding CHB confirm the funding sources for undertaking the works and commitment of funds
3. The release of Council funds are milestone and ideally matched (prorated) by shareholder, private or other investment.
4. Failure to complete will provide for a default of the IP to Council. We believe this will be of benefit to Council for other purposes.
5. There is regular reporting.

Consulting with Community

In consulting with community we believe the key messaging of the benefits that will be derived through the successful implementation of Water Holdings CHB proposal needs to be clearly articulated.

The basis under which the investment made by Council should also form part of this messaging. We would not recommend entering into any dialogue as to the specifics of the key commercial terms and these should be treated as commercial in confidence.

Conclusion

The proposed investment being sought by Water Holdings CHB from Council is not inconsistent with investments made by Government and Councils into strategic infrastructure/ social infrastructure projects.

The proposal aligns strategically with Council's and the Regions wider economic strategies and the uniqueness of the investment made to date which largely can be augmented into a potential project of significant value to District is very real; subject to a range of external variables being confirmed.

There are a range of commercial structuring options available to Council in making this investment, on the basis of wanting manage risk and the optics of community we would recommend Council make this investment on the basis of suspensory loan. The loan will be subject to the parties agreeing a set of KCT's prior to any agreement drafting is undertaken.

From: [redacted]
To: [Leigh Collecutt](#)
Cc: [redacted]
Subject: FW: see attached
Date: Thursday, 27 June 2019 1:55:11 PM
Attachments: [image353296.png](#)
[image768394.png](#)
[image782942.png](#)
[image145871.png](#)
[image636180.png](#)
[Document1 \(Compatibility Model\).docx](#)



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-----Original Message-----

From: Monique Davidson [mailto:xxxxxxx.xxxxxxxx@xxxxx.xxxx.xx]
Sent: January 22, 2019 10:47 AM
To: angusmabin [redacted]
Subject: see attached

Please note this is in very draft/raw form.

Thanks

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 - Suspensory – A suspensory loan is generally a non-repayable loan, that is dispensed over time or upon the completion of a set of agreed outputs. A suspensory loan normally is not repayable, however there can be mechanisms whereby repayment can be required.

In the instance of the investment being proposed this could include Water Holdings CHB commercialisation of the IP or the sale, divestment or transfer of IP or the company who holds the IP.

With a suspensory loan there is normally no requirement for a guarantee or security interest to be noted.
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The legal and accounting structures around establishing such a facility would be a lot more complex than that of a grant or suspensory loan and the establishment and ongoing compliance requirements would be costly. The facility would also need to be accounted for as an asset on Council's books.

If Council were going to pursue this option further legal and accounting advice on this matter would be required.

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- The development of water storage facilities and measureable economic benefits being created and realised; being:
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From: [REDACTED]
To: [Leigh Collecutt](#)
Cc:
Subject: FW: Morning, An updated copy with some slight changes.
Date: Thursday, 27 June 2019 1:55:38 PM
Attachments: [image485812.png](#)
[image958502.png](#)
[image061579.png](#)
[image685719.png](#)
[image985221.png](#)
[Discussion Paper - Council Investment in CHB Water Holdings Limited.docx](#)



[REDACTED]
Information Services Officer
Central Hawke's Bay District Council

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28 - 32 Ruataniwha Street
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06 857 8060

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Got an idea or feedback? Fantastic! You can [let us know here](#)



-----Original Message-----

From: Monique Davidson [mailto:xxxxxxx.xxxxxxxx@xxxxx.xxxx.xx]
Sent: January 23, 2019 9:18 AM
To: angusmabin@[REDACTED]
Subject: Morning, An updated copy with some slight changes.

Discussion Paper - CHBDC Rural Ward Fund Investment Commercial Structuring

To: Central Hawke's Bay District Council Elected Members

From: Chief Executive, Monique Davidson

23 January 2019

Introduction

For many years Central Hawke's Bay has been immersed in a conversation about the future prospects of the Ruataniwha Water Storage Scheme. The reality is that the Ruataniwha Water Storage Scheme as proposed is unlikely to ever be fully implemented.

The requirement for water storage in some form is however required to not only ensure water security and resilience for the District, but to allow for future growth and economic development.

As a Council and key infrastructure provider responsible for ensuring the long term social, cultural, environmental and economic development of the District, the need for some form of investment in findings and implementing a solution to the current requirements and demands for water security will need to be made. The reality is the scale required to achieve the District and Regional wide outputs will require collaboration and partnership across a range of stakeholder groups.

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Council have confirmed any such investment made into this proposal require public consultation and careful messaging and most importantly the optics of the proposal will need to clearly articulate the benefits to community from such an investment being made and most importantly corporate accountability with the expenditure of public funds.

Purpose of this Paper

The purpose of this paper is to provide Council with an assessment of potential commercial and legal structures for Council's investment into Water Holdings CHB proposed project.

The paper will provide a high level assessment of who Water Holdings CHB are, a review of the strategic/ policy fit for any investment by Council, a review of the structures available to Council for making the investment and recommendations on the preferred option as well as condition precedents for any investment being made.

We note the paper is a discussion document for Councils purposes only and further tax and legal advice should be sought, in a measured way.

Central Hawkes Bay Water Holdings Limited

Water Holdings CHB Limited is a limited liability company, 100% owned by private shareholders and describes itself as a conglomerate of community and business leaders in Central Hawkes Bay with an interest in securing the long term and sustainable water security for the region.

The entity whilst a private business, promotes itself as being not for private profit from the assets which have been purchased.

Water Holdings CHB shareholding (of 9999 shares) is equally split between three shareholders being:

- Hugh Ricthie
- Gavin Streeter
- Tim Gliberston

In addition to the shareholder/ directors, Water Holdings CHB has an independent chair Agnus Mabin.

All shareholders are actively involved in local businesses throughout Central Hawkes Bay and the wider Hawkes Bay region.

A key question of the Director/ Shareholders is, following the validation of the IP, how will Water Holdings CHB implement and fund the proposal. The investment made by the Shareholders is relatively modest in the context of the overall investment that will be required and having visibility of this and their longer term strategy is recommended.

Proposed Investment.

The investment being sought by Water Holdings CHB from Council is for \$250,000, as aforementioned these funds are being matched by the shareholders/ private investors and a funding grant being sought from Governments Provincial Growth Fund (PGF).

Table 1. Provides a breakdown of the funding split that makes up the total proposed quantum of funds being sought.

Table 1. Water Holdings CHB Investment Split.

Funder	Quantum	Comment
Provincial Growth Fund	\$250,000	Not confirmed
Water Holdings CHB	\$100,000	Investment todote, purchasing IP
Other	\$50,000	To be confirmed from other partners
CHBDC	\$250,000	Council investment being sought
Total	\$650,000	

Councils Investment

It is proposed Council's funding will be made available via the Rural Ward Fund.

The purpose of the Rural Ward Fund is to provide targeted funding for key recreational and infrastructure projects.

As reported in Council 2017/18 Annual Plan the Ruataniwha Dam was supported by Council and viewed as a key infrastructure development from which Council would be seeking to take water to service communities needs.

In addition to providing a water source, the project as proposed was projected to result in significant economic benefit and Water Holdings CHB believe any such adaptation of the original proposal will have comparable 'scaled' benefits for the region and further economic development, as to a range of further value add outputs for the District and Region as a whole, that could include:

- Improved summer flows in the Tukituki River
- Improved river health and habitat
- There is a predicted increase of between 1.9-5.5% in current GDP (between \$130 to \$380million a year by full water uptake)
- The potential to create between 1,130 and 3,580 jobs across Hawkes Bay through increased farming activity and its flow-on impacts

(Based on RWSS benefits assessment)

Water Holdings CHB propose to use the funding sought from Council to review the intellectual property to examine two scenarios for water storage and distribution, being.

Option 1 – developing a full scale Makaroro Dam, providing for low flow allowances.

Option 2 – build a lower dam, with no provision of environmental flows and reduced regional impact.

We believe the investment proposed is consistent with the intent of the fund and the potential benefits to the district could be significant. While the Rural Ward Fund has typically been used for Council owned assets, Council's Investment Policy allows for investment to not be a Council owned asset.

Strategic Alignment

Based on a review of Water Holdings CHP PGF application, the proposal, outputs and longer term benefits all strategically align with the Regional economic development strategy – Matariki, the CHB Water Taskforce objectives of providing security/ quality of supply of water across the District.

The proposal and the economic benefits of the proposal also aligns directly with Councils own development objectives Thrive. Which upon the successful implementation will result in further economic growth and development, will attract and retain business and whanau and will result in an environmentally responsible response to providing additional resilience and water security for the region.

Water Holdings CHB have also proactively engaged with mana whenua at a Taiwhenua level, who passed a motion at the most recent board meeting supporting the proposal and the benefits of the proposal (implementation) in increasing water in the Tukituki and tributaries.

Commercial Structuring

The proposed investment being sought by Water Holdings CHB is not unique investment precedent. There are multiple examples whereby private/ public investment has been made into large scale infrastructure/ social infrastructure projects by Government and Councils, where there is a direct tangible community benefit and return.

What is unique with Water Holdings CHB proposal is the level of investment made to date in validating and designing a scaled water storage development that could be practically implemented (\$25m of Intellectual Property). It is worth noting that the investment to date was via the Hawke's Bay Regional Investment Company before the transfer of the IP to Water Holdings CHB.

In Council making any form of investment, whether by way of a grant, loan or as a direct investment; careful consideration needs to be given to how the funds will be used and what caveats or conditions will be imposed so as to ensure Council's position is protected. The nature of the caveats or conditions will largely depend on the commercial structure Council elects to choose.

There are a range of options for Council in making the investment proposed, the following options have been provided by independent advice and gives an overview of the varying options and recommendation for Council's perusal.

- Grant – A grant would comprise of a one off non repayable grant of monies provided as payment for a set of outputs. Payment can be made in advance, milestone or upon the successful completion of the contracted outputs.

The grant would be documented between the parties via a funding agreement. The funding agreement would set out the mechanism by which the investment would be made, timings for payments, requirements and outputs of the funding.

This approach is similar to how Government allocates its investment in similar activities.

- Loan – A loan can be made in a number of forms, being
 - Suspensory – A suspensory loan is generally a non repayable loan, that is dispensed over time or upon the completion of a set of agreed outputs. A suspensory loan normally is not repayable, however there can be mechanisms whereby repayment can be required.

In the instance of the investment being proposed this could include Water Holdings CHB commercialisation of the IP or the sale, divestment or transfer of IP or the company who holds the IP.

With a suspensory loan there is normally no requirement for a guarantee or security interest to be noted.

- Non interest bearing – A non interest bearing loan is a repayable facility that accrues nil interest. In the instance of the investment proposed, the interest would be registered over the all of the IP and repayment could be time bound i.e. a set term or upon a agreed trigger being effected (implementation or divestment).

The legal and accounting structures around establishing such a facility would be a lot more complex than that of a grant or suspensory loan and the establishment and ongoing compliance requirements would be costly. The facility would also need to be accounted for as a liability on Councils books.

The legal and accounting structures around establishing such a facility would be a lot more complex than that of a grant or suspensory loan and the establishment and ongoing compliance requirements would be costly. The facility would also need to be accounted for as a liability on Councils books.

If Council were going to pursue this option further legal and accounting advice on this matter would be required.

- Interest bearing loan – An interest bearing loan would see Council investments being treated as conventional loan facility at an agreed rate of return. The level of return could be based on Councils cost of borrowing plus an agreed basis points adjustment to cover the cost of administration. This is likely to be circa 3.5 to 3.7%.

The legal and accounting structures around establishing such a facility would be a lot more complex than that of a grant or suspensory loan and the establishment and ongoing compliance requirements would be costly, however recoverable via the cost of funding. The facility would also need to be accounted for as a liability on Councils books.

- Investment for ownership stake – An alternative to Council making a grant or providing a loan would be Council making a direct investment into the Water Holdings CHB for a shareholding in the entity and Councils ongoing role could be passive or active whereby it seeks a governance and decision making position in the entity.

Investment in ownership would also trigger the need to assess whether it meets the test to become a Council Controlled Organisation, adding a further layer of audit and legislative requirements.

The risk of assuming such a role will be an ongoing requirement or potential for further investment being required as to Councils role potentially becoming confused.

Overview

Whilst the investment being sought is not significant in the context of the overall potential opportunity, it is still a significant sum of monies for Council to consider and the final implementation and commercialisation of the IP will require a significant level of investment to be made. A level of investment the current shareholders are likely to require external inputs.

Council Officers feel the optics of providing the monies as a grant would not be well received by community and it is likely community will be far more receptive to the monies being treated as a loan. In terms of Council assuming an investment stake in Water Holdings CHB we believe this would be fraught with issues and there are a number of examples where Councils have ended up having to assume responsibility for further investment, delivery and ultimately the associated contingent liabilities.

In terms of the investment being treated as a loan, we believe the most appropriate mechanism would be for Councils investment into Water Holdings CHB to be a suspensory loan, with the following condition precedents for repayments or dispensation of liabilities:

Repayment:

- The sale or divestment of Water Holdings CHB.
- The transfer of IP to a subsidiary entity or third party, other than Council.

Dispensation:

- The development of water storage facilities and measureable economic benefits being created and realised; being:
 1. Water security (agreed m3 quantum).
 2. Employment.
 3. New business/ investment.
 4. The review of IP does not identify any tangible or financially sustainable water storage solution that can be implemented.

We believe if Water Holdings CHB do receive a dispensation under point 4 Council should as condition of the loan agreement have access to all IP obtained and developed by Water Holdings CHB as part of the investigation exercise.

The basis of payment of any funds we would also recommend are made on a milestone basis being the completion or satisfaction of agreed outputs. This will protect Councils position and the potential for any loss. It will also ensure if the initiative is not feasible there will be a short NO rather than a long NO with any unecessary Council expenditure not occurring. This will also provide a feedback loop for reporting purposes.

In confirming the structuring of the commercials we would recommend Council and Water Holdings CHB agree the upfront Key Commercial Terms (KCT's) in advance of any funding agreement being confirmed. The KCT's will form the basis of the funding agreement.

This will also mitigate any unnecessary costs in drafting the agreements between the parties as well as confirm upfront and earlier the expectations of the two parties.

The KCT's will set out the requirements of the parties, expectations and key deliverables tagged to the funding. The KCT's will provide the framework for documenting the agreement.

In terms of recommendations in making any payment, suggested conditions are as follow:

1. Prior to any funds being released Water Holdings CHB provide a full work programme and budget for expenditure
2. Water Holding CHB confirm the funding sources for undertaking the works and commitment of funds
3. The release of Council funds are milestone and ideally matched (prorataed) by shareholder, private or other investment.
4. Failure to complete will provide for a default of the IP to Council. We beleive this will be of benefit to Council for other purposes.
5. There is regluar reporting.

Consulting with Community

In consulting with community we believe the key messaging of the benefits that will be derived through the successful implementation of Water Holdings CHB proposal needs to be clearly articulated.

The basis under which the investment made by Council should also form part of this messaging. We would not recommend entering into any dialogue as to the specifics of the key commercial terms and these should be treated as commercial in confidence.

Conclusion

The proposed investment being sought by Water Holdings CHB from Council is not inconsistent with investments made by Government and Councils into strategic infrastructure/ social infrastructure projects.

The proposal aligns strategically with Council's and the Region's wider economic strategies and the uniqueness of the investment made to date which largely can be augmented into a potential project of significant value to District is very real; subject to a range of external variables being confirmed.

There are a range of commercial structuring options available to Council in making this investment, on the basis of wanting to manage risk and the optics of community we would recommend Council make this investment on the basis of a suspensory loan. The loan will be subject to the parties agreeing a set of KCT's prior to any agreement drafting being undertaken.

From: [REDACTED]
To: [leigh.collecutt](mailto:leigh.collecutt@chb.govt.nz)
Cc: [REDACTED]
Subject: FW: Re: Water Holdings CHB
Date: Thursday, 27 June 2019 1:56:56 PM
Attachments: [image516251.png](#)
[image455072.png](#)
[image708796.png](#)
[image333539.png](#)
[image844129.png](#)



[REDACTED]
Information Services Officer
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210
06 857 8060

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Got an idea or feedback? Fantastic! You can [let us know here](#)



-----Original Message-----

From: Angus Mabin [REDACTED]
Sent: February 14, 2019 6:09 PM
To: Monique Davidson [mailto:xxxxxxx.xxxxxxxx@xxxx.xxxx.xx]
Subject: Re: Water Holdings CHB

Currently down in Wanaka preparing for a iron man on Saturday. Will go through this tomorrow morning. Angus

Sent from my iPhone

On 13/02/2019, at 8:56 PM, Monique Davidson xxxxxxx.xxxxxxxx@xxxx.xxxx.xx wrote:

Evening Angus

Please find attached latest copy of consultation document and supporting documentation.

The consultation document still needs some tiny changes (please not the information not related to Water Holdings CHB is confidential)

The supporting documentation still requires proof reading and formatting.

By Friday afternoon I hope to be in a position to sign both of these documents off so that my team can build the agenda which we will be publically releasing next Friday as part of a wider agenda where Council will consider the adoption of the Draft Annual Plan 2019/2020

If you could provide any feedback by Friday morning that would be most appreciated.

If you have any questions, please do not hesitate to contact me.

It is crucial we get these documents right, which will obviously be supported by some well planned and executed communications.

Thanks

Monique

|

Monique Davidson
Chief Executive
Central Hawkes Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210

06 857 8060
027 601 1711



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Got an idea or feedback? Fantastic! You can [let us know here](#)

<001460_annualplan_7-0.pdf>



**CENTRAL
HAWKE'S BAY**
DISTRICT COUNCIL

together we thrive

Hear about
our plans for
the 2019/20
years!

Give us your
thoughts
on our
Draft Environmental
Strategy and more!

Bringing Thrive Alive!

Annual Plan 2019/20 Consultation Document

E ora ngatahi ana! Together we Thrive!

We've

Kia ora Central Hawke's Bay!

In November 2016 we embarked on a bold and ambitious new journey as a Council and community to create a new vision for Central Hawke's Bay – Together we Thrive!

Together we are bringing Thrive alive!

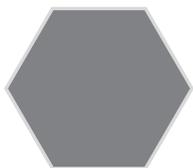
This Annual Plan reflects on only some of the things we said we would do – and have delivered on, and our areas of focus for the coming year. As a Council, we remain focused on delivering on our bold plans to create a community where we have got the basics right, while also creating an environment for social and economic growth.

In the development of #thebigwaterstory, we heard overwhelmingly that water – whether reliability to sustain business or home, is critical to support our District. In this year's Annual Plan, we are proposing funds to support our community in what we are coining #the even bigger water story to support water resilience options for Central Hawke's Bay. We anticipate our funding will be the basis to support other funding opportunities for the District, including the Provincial Growth Fund.

We also want to hear your feedback on the community's Environmental Strategy – a major priority project identified from Project Thrive. This strategy suggests how together we can collectively improve our environmental footprint and enhance our patch of Central Hawke's Bay paradise.

The impact of new rating valuations received in late 2018 has been very much front of mind in the development of this plan. While new property values are a reflection of the true value of Central Hawke's Bay being recognised, the changes for some have dramatically changed how rates are apportioned across the District. While Council is unfortunately limited in how rates are apportioned as a result of the new values, we are however proposing a major rating review to ensure rates are spread as equitably as possible in 2020.

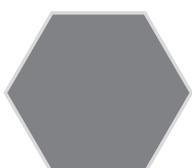
This year's rates are very close to what we proposed in the 2018 Long Term Plan – a success for a District with very limited funding sources and many challenges ahead requiring bold leadership. **Together we Thrive – so please share your thoughts with us.**



Alex Walker

Alex Walker

Mayor of Central Hawke's Bay



Monique Davidson

Monique Davidson

Chief Executive Officer

Waipawa and Districts Centennial Memorial Pool

Following the failure of the pool in 2017, the community rallied and the Waipawa and Districts Pool Project was included in Councils 2018 Long Term Plan. \$650,000 was contributed by Council to the \$1.185 million project, with a Community Project Group doing a stellar job fundraising the \$550,000 balance.

With the pool being delayed while being shipped from Italy, Christmas came late with the new Pool being opened in February 2019.

District Plan Review

The review of the current District Plan – over 20 years old was a major priority for the new Council, following the completion of Project Thrive. Council set an ambitious target to adopt a draft plan on 31 October 2018. Council achieved what it said it would do, adopting the substantially complete draft on 31 October.

In December, Council confirmed a programme for consultation to commence with the community in May/June 2019 on the new Draft District Plan.

been busy this year

delivering on the outcomes of Project Thrive!

Some of the highlights of this year include:

Opening of the Centralines Multisport Turf

With the huge support of the community, the Central Hawke's Bay Community Trust opened the Sports Turf in November 2018. This multi-million dollar project is an outstanding facility for Central Hawke's Bay, with Council providing \$200,000 and lots of other in-kind support to the project.

Weather Events

Multiple major weather events in September and December caused major damage and disruption to the community with over \$5.7 million in damage to the roading network being caused. Ongoing major repairs kept our roading team busy through the year.

Economic Development and Provincial Growth Fund

In late 2018 we appointed our first dedicated Economic Development Role for Central Hawke's Bay. We also made five applications to the Government's Provincial Growth Fund to identify our economic potential and to support Central Hawke's Bay to fully participate in the Fund.



New and Strengthened Contracting partners

In 2018 we welcomed new Strategic Partners – Smart Environmental, Stantech and a joint venture of Recreational Services and Veolia to the Central Hawke's Bay Whanau. We also strengthened our existing partnerships with Higgins and road maintenance contractor Downer.

New and strengthened contracting partnerships has allowed us to work together across our contracts and to think smarter to support the outcomes of Project Thrive!

Wastewater Review

This year we have made big in-roads to reducing challenges with managing odour and Hawke's Bay Regional Council requirements at our Wastewater treatment Plants.

The Community Reference Group and Technical Reference Group have been working together to continue the required review of the Waipawa and Waipukurau Wastewater treatment plants and Otane has now been added to the review. We are working to have options identified by April 2019.

#theBIGWaterStory

Launch of the #The Big Water Story

In August we launched #thebigwaterstory, a ten-year investment plan in our water, stormwater and wastewater infrastructure for Central Hawke's Bay. Investing to provide safe and clean drinking water and reliable and cost effective waste and storm water services was a key message through Project THRIVE.

Having your say is easy!

Let us know your thoughts on our priorities and plans for the 2019/20 by visiting www.chbdc.govt.nz or making a submission.

We've got big plans!

Our big focus for the 2019/20 year includes the following:



District Plan Review

Our focus remains on the completion of the District Plan – a major driver of change to deliver on the outcomes of Project Thrive!

With the current plan over 20 years old, the new plan reflects the aspirations of a future Central Hawke's Bay District.

In May/June, conversations and consultation on the Draft Plan will commence with the community, this project being a major driver to support a Thriving Central Hawke's Bay!



Economic Development

A major focus for Council is growing the social and economic wellbeing of Central Hawke's Bay.

Relative to our success from our five applications to the Government's Provincial Growth Fund, we anticipate this year will be a major year for setting the Districts economic foundations for the future.

The development of an Economic Development Strategy, will be informed from work funding is sought for from the Provincial Growth Fund, to identify opportunities to enhance the economic and social wellbeing of our community.



Community Planning

The 2019/20 year will see the substantial delivery of the community planning programme. In the 2018/19 year we began the Community Planning programme with the communities of Otane and Takapau.

In the 2019/20 year we plan to support the communities of Porangahau and Ongaonga to deliver their community plans.

Our focus also turns this year to Town Centre Planning, with planning in Waipawa beginning this year and planning for Waipukurau in the 2020 year.

Māori Engagement

Council recognises the special role Māori play in the history and future of Central Hawke's Bay.

Over the coming years Council has identified building stronger partnerships with Iwi, Hapu and Marae across Tamatea as a priority to ensure our whole community thrives. Over the next year Council in particular will be turning their attention to working closer with Te Taiwhenua o Tamatea, Marae and Post Treaty settlement groups to assist Council in enhancing Māori engagement.



Wastewater Progress

Wastewater continues to be a major focus for this Council.

As a requirement of our Environment court order and agreement with Hawke's Bay Regional Council, we will continue working with the community and our experts to arrive at our best practicable option by mid 2019. The Otane Waste Water Plant was included in the project scope after a review of the planned upgrade at Otane and is now in the final stages of the consent extension process.

Council will also shortly be undertaking a review of the wastewater network in Otane as it plans to reduce the amount of infiltration and ingress (I&I) volume into the wastewater system and pond.

In 2019 Council will begin the renewal of 2200m of the 375mm trunk sewer gravity main in Waipawa. This will be a two year project and is the part of the #bigwaterstory capital included in the Long Term Plan. This work will reduce I&I and improve the performance in the wastewater network during storm events and reduce the amount of unnecessary groundwater the wastewater pond has to receive and treat.



Rating Review

We intend to undertake a major rating review during the 2019/20 year.

This will be the first major rating review for the District in over ten years to carefully consider the way rates are apportioned and distributed through the Community.

As part of the review we will be consulting with the community about the changes and intend that the outcome of the review is the basis for rating in 2020/21.

Solid Waste Minimisation Plan

This year we will also be looking to review our solid waste minimisation plan (SWMMP) following an initial review in 2018.

This major review will complement the Districts new Environmental Strategy, to ensure a co-ordinated approach to minimising our communities waste and enhancing our natural environment occurs.



#theBigWaterStory

In 2019/20 the big work begins on #thebigwaterstory projects. This includes a number of projects that have been in the planning stages in the 2018/2019 years.

Improvements to the Takapau and Porangahau water treatment plants, will focus on removing manganese and iron at both plants, and reducing hardness in Porangahau. Storage capabilities will also be reviewed at both plants. Council intends to commence work mid 2019 with a view for work to be completed by October 2019.

Council will also be concentrating on progressing two flagship projects through 2019 being the Otane and Waipukurau alternate and second water supplies. Both of these projects involve lengthy pipeline builds with varying complexities and will commence in 2019 through 2020 with an expected completion in 2021.

Council will also continue an ongoing 7 year programme of targeted firefighting and improvements in low pressure reticulation areas in Waipukurau in 2019. This programme will start in 2018/19 and will support our ability to grow the networks in the future and add more resilience to the networks.

Tell us your thoughts?

We're proposing four changes from our 2018 Long Term Plan:

1. #the even bigger water story

Water storage has been a focus of much discussion and energy in Central Hawke's Bay for several years now. The reality is that the Ruataniwha Water Storage Scheme as we have understood it, is unlikely. We now need to invest our energy and resources into finding water storage solutions which seek to balance the impact we have on the Tukituki catchment, with security of water not just for social and economic reasons, but with the health and sustainability of the river and aquifer at the centre of our decisions.

What we do know is that water storage, in some form, is critical for the future security of water in Central Hawke's Bay. What form this takes needs some further work.

Central Hawke's Bay District Council wants to hear your feedback on how as a Council we can keep the prospects of water storage alive in Central Hawke's Bay.

Council is proposing to allocate \$250,000 from the Rural Ward Funds to work specifically with CHB Water Holdings Limited and other key stakeholders to determine a feasible water storage option for Central Hawke's Bay.

Given the high public interest that water storage to date has received, Council are choosing to consult with the public on your thoughts.

How will we commercially structure it?

Water Holdings CHB Limited is a Limited Liability company set up to purchase the Intellectual Property (IP) for the Ruataniwha Water Storage Scheme from Hawke's Bay Regional Council Investment Company. The entity, while a private business, promotes itself as being not for profit from the assets which have been purchased. Water Holdings CHB Ltd is equally split between three shareholders Hugh Ritchie, Gavin Streeter and Tim Gilbertson. In addition to the shareholders, Water Holdings CHB Ltd Board of Directors has an independent Chair Angus Mabin.

We are seeking your feedback on the proposition that Council provides a \$250,000 suspensory loan to Water Holdings CHB Ltd. A suspensory loan is a non-repayable loan, that is dispensed over time or upon the completion of a set of agreed outputs. A suspensory loan normally is not repayable, however there can be mechanisms whereby repayment can be required. In the instance of the investment being proposed, this could include Water Holdings CHB Ltd commercialisation of the IP or the sale, divestment or transfer of IP or the company who holds the IP.

What will the money achieve?

This project seeks to support Water Holdings CHB Ltd and key stakeholders to further assess the IP of the Ruataniwha Water Storage Scheme to explore and produce workable options to achieve water security for inter-generational economic, social and environmental resilience of Central Hawke's Bay.

The proposed money would support Water Holdings CHB Limited to investigate existing Intellectual Property and work in a collaborative way with Te Taiwhenua o Tamatea, Hawke's Bay Regional Council and other key stakeholders to determine a solutions package for sustainable and reliable summer water supply both in Central Hawke's Bay Ruataniwha Plains and the lower Tukituki catchment.

How will this affect my rates?

The good news is that the proposed suspensory loan will not affect your rates. Council are proposing that this suspensory loan is funded out of the Rural Ward Fund which has a current balance of \$811,114. By drawing on the reserve fund no further impact on rates are required.

For more information about what is proposed refer to the supporting documentation which can be found on Council's website www.chbdc.govt.nz



2. Revenue and Financing Policy

Council has considered the impact of the latest three yearly rating valuations on the incidence of rating across the district and has proposed a minor variation to the Revenue and Financing Policy.

Following the requirement to review the overall impact of the allocation of rates on the community, the Leadership, Governance and Consultation activity has been included as part of the General Rate rather than the Uniform Annual General Charge.

A full Statement of Proposal is included with the Supporting Information for the Annual Plan Consultation at www.chbdc.govt.nz

3. Disaster Relief Fund Trust

The Hawke's Bay Civil Defence Emergency Management (CDEM) Group is a collective of the five Hawke's Bay local authorities required under the CDEM Act 2002 to govern and manage CDEM within the region.

The approved CDEM Group Plan seeks to establish a Hawke's Bay Disaster Relief Trust with the objective of collecting and distributing donations made by the public and organisations to assist people affected by a civil defence emergency in Hawke's Bay. Establishing the Trust will enable us to put in place the mechanisms to immediately seek and administer donations as a charity before a disaster occurs. This will allow for donated funds to be distributed as quickly as possible to those most in need.

The funds that would be placed in the Trust are not Council funds, nor are they funds that would otherwise be coming to the Council.

As the Trustees will need to be appointed by the Hawke's Bay Councils, it is necessary to establish a Council Controlled Organisation under the Local Government Act to form and administer the Trust. There is no rates impact for the establishment of the trust.



4. Draft Environmental Strategy

Project THRIVE highlighted how passionate our community is about protecting our piece of Central Hawke's Bay paradise.

We listened, and in response have developed an Environmental (and Sustainability) Strategy, which we included as a project in the 2018-28 Long Term Plan. Over the past few months we have been working with a team of environmentally savvy community members and have come up with the following vision:

We are successful environmental guardians, ensuring future generations THRIVE here.

By 2023 the Central Hawke's Bay community will be recognised as successful environmental guardians, protecting and enhancing the environment so that future generations can THRIVE here. We want to leave the environment better than it is now. We have set the bar high because we are aiming for the best environmental outcomes we can manage. Climate change, clean rivers, reduced waste, plastic free, recycling friendly are all aspirations firmly in our sights. To do this we will focus on the following themes:

- Environmental Vitality
- Our People and Place
- Sustainable Economy

We have a draft strategy including suggested actions to ensure our vision becomes reality. It's important to us we take our community along with us on this project as it's going to take a whole of community effort to make change.

Council is not proposing to spend any additional money on implementing this Strategy, so there won't be any impact on rates. However, we are looking to change some of the way we do business and may need to change the priority of our existing funding. To ensure we are successful we will need help from you, our community, and partners to assist us.

Please check out the full Strategy and tell us what you think!

- **Do you think we have this about right?**
- **How can we best work together on actions?**
- **What change would you most like to see happen?**

What does this mean for Rates?

We continue to work towards delivering the capital projects and levels of service outlined in the Long Term Plan.

The Annual Plan includes an overall rates increase of 4.73% which is an increase on the 4.04% forecast for 2019/20 year in the 2018-28 Long Term Plan. The 0.58% increase is the combination of:

- An increase in the expected inflation rate for Councils from 2.2% in the Long Term Plan to 3.3%
- Reduction in internal interest rates to better alignment external and internal interest rates following the maturity of older debt.
- Continuing to look for more innovative ways to deliver our services and work collaboratively with our strategic contract partners.

Revaluation

Every Council must complete a revaluation of all properties in its area at least every three years. Central Hawke's Bay was revalued on 1 September 2018 and the new valuations are used for the rating from 1 July 2019. This Annual Plan will be the first year the new valuations are used. Council has considered the impact of the new valuations on the distribution of rates across the district and has included a minor variation to the Revenue and Financing Policy. The apportionment and distribution of rates will be full considered during the Rating Review that will be conducted over the following year. The adjustment to the Revenue and Financing Policy is being consulted on as part of this document.

\$10
Every 10 collected is allocated to these services

This graphic shows the range of services that the 2019/20 rates will go towards. Many of them you use daily without thinking. In total, rates make up about 65% of the Council's annual income.



Fees and Charges

Each year we review all of our fees and charges and generally increase them to keep pace with the rising costs of providing these services.

For this annual plan, most fees and charges have increased to align with inflation, while some have increased further to ensure that we are covering costs. In addition, there have been several recent legislative changes that require us to implement new fees and charges as part of the Council's responsibility to administer these Acts. A complete list of Fees and Charges is included in the Supporting Information.



33¢
Libraries



33¢
Stormwater



62¢
Parks, Reserves &
Swimming Pools



27¢
Theatres, Halls
& Museums



36¢
Leadership, Governance
and Consultation



71¢
Solid Waste



\$1.62
Wastewater
(Sewerage)



1.51¢
Water Supplies



\$3.20
Land Transport



Taumatawhakatangiākoauotamateaturipukakapikimanungahoronukupokaiwhenuakitanatahu

Have your say!

The public consultation runs from **18 March to 12 April 2018**. There are a number of ways you can give feedback depending on what suits you.



In Person



Written Feedback



Social Media

Written Feedback

You can contribute feedback online at www.chbdc.govt.nz or fill out the attached feedback form and drop it into the Council offices or libraries or send to:

Central Hawke's Bay District Council
P O Box 127
Waipawa 4210

You can also email us at:
thrivx@xxxxx.xxvt.nz

In Person

Come and talk to us at one of our **Have Your Say** events. This is the opportunity for you to give feedback in person and be heard by the Council.

- There's no need to register or pre-book
- There's no need to make a submission ahead of the event
- People have a chance to hear the views of others as well as saying your own
- Note-takers capture the feedback
- Subject-matter experts are available to answer questions
- Elected members will be present: their role is to listen to the conversation and ask questions to seek understanding

Social Media

Comments made through Facebook will be considered feedback:

Post on [facebook.com/CHBDistrictCouncil](https://www.facebook.com/CHBDistrictCouncil)
– using **#chbltp**

**Together
we thrive!**

Events will be held in these locations on the following dates from 7pm to 9pm:

Elsthorpe/Omakere

xxxx | TBC

Waipukurau

xxxx | TBC

Waipawa

xxxx | TBC

Otane

xxxx | TBC

Tiki Kino/Onga Onga

xxxx | TBC

Porangahau

xxxx | TBC

Takapau

xxxx | TBC

Alternatively if you have questions for one or more of your Councillors or Mayor you can phone them.

Alex Walker	027 860 7752
Tim Aitken	027 472 4587
Kelly Annand	027 479 4000
Shelley Burne-Field	027 630 6363
Tim Chote	027 448 2014
Gerard Minehan	027 479 3773
Brent Muggeridge	021 332 353
Ian Sharp	021 614 311
David Tennent	027 445 0952

You are able to comment on anything included in the Consultation Document or provide any other feedback.

Need more room?

You can attach extra pages but please make sure they include your name and contact information.

Submission Form

Your Details

Submitters Name:

Postal Address:

Day Phone: Night Phone:

Mobile: Email:

Do you wish to present your comments to Council in person at a hearing? Yes No

Please note that your submission (including any personal information supplied) will be made available to Councillors and the public. Submissions Close on xxxx 2019 at xpm

Submission Questions

1. Xerum volore sunt aut es peri qui voloreperume soles et voluptium alignih icipit que iligenem aut autector?

- sitatum quatemp orumquae necestium
- endebis expelest maximol uptatio.
- Otaque pelis nosseque velita voluptaquam

Please provide any comments:

3. Do you support the establishment of the Disaster Relief Fund Trust?

2. Do you agree with the changes to the Revenue & Financing Policy?

4. Do you have any feedback on the Draft Environmental Strategy?

Any other suggestions?





Together we thrive!
We are bringing
our vision for Central
Hawke's Bay alive to
create a proud and
properous district.

CENTRAL HAWKE'S BAY DISTRICT COUNCIL
www.chbdc.govt.nz • thrivx@xxxxx.xxvt.nz • 06 857 8060
PO Box 127 • 28 - 32 Ruataniwha Street, Waipawa 4210



**CENTRAL
HAWKE'S BAY**
DISTRICT COUNCIL

together we thrive

CHBDC Rural Ward Fund Investment Commercial Structuring Discussion Paper

Supporting documentation for community consultation Annual Plan 2019/2020

January 2019

Introduction

For many years Central Hawke's Bay has been immersed in a conversation about the future prospects of the Ruataniwha Water Storage Scheme. The reality is that the Ruataniwha Water Storage Scheme as proposed is unlikely to ever be fully implemented.

The requirement for water storage in some form is required to not only ensure water security and resilience for the District, but to allow for future growth and economic development.

As a Council and key infrastructure provider responsible for ensuring the long term social, cultural, environmental and economic development of the District, the need for some form of investment in finding and implementing a solution to the current requirements and demands for water security need to be considered. The reality is the scale required to achieve the District and Region wide outputs will require collaboration and partnership across a range of stakeholder groups.

What was learnt from the Ruatanwhia proposal is no one entity alone will have the resources or ability to enable any water storage proposal of the required scale or scope alone.

How Council support such initiatives will vary and will need to be carefully managed as both a regulator and potential partner and funder of public funds.

Council have explored with Water Holdings CHB Limited (Water Holdings CHB) the proposition of providing financial assistance to support Water Holdings CHB in completing a review of the Ruataniwha Intellectual Property to identify potential water storage solutions and commercialisation opportunities.

Purpose of this Paper

This paper sets out a proposal to provide a \$250,000 suspensory loan from Council's Rural Ward Funds to Water Holdings CHB.

Council have confirmed any such investment require public consultation.

The purpose of this paper is to provide the public with an assessment of potential commercial and legal structures that Council considered and to provide additional information so that members of the community can make a submission to the Draft Annual Plan 2019/2020.

The paper provides a high-level assessment of who Water Holdings CHB are, a review of the strategic and policy fit for any investment by Council, a review of the structures available to Council for making the investment and recommendations on the preferred option as well as condition precedents for any investment being made.

Central Hawkes Bay Water Holdings Limited

Water Holdings CHB Limited is a limited liability company, 100% owned by private shareholders and describes itself as a conglomerate of community and business leaders in Central Hawkes Bay with an interest in securing the long term and sustainable water security for the region.

The entity whilst a private business, promotes itself as being not for private profit from the assets which have been purchased.

Water Holdings CHB shareholding (of 9999 shares) is split between six shareholders being:

- Hugh Ritchie
- Gavin Streeter
- Tim Gilberston
- Bruce Stephenson
- Bruce Worsnop
- Arthur Rollinds

In addition to the shareholder/ directors, Water Holdings CHB has an independent chair Angus Mabin.

All shareholders are actively involved in local businesses throughout Central Hawkes Bay and the wider Hawkes Bay region.

The investment made by the Shareholders is relatively modest in the context of the overall investment that will be required and having visibility of this and their longer term strategy is recommended.

Proposed Investment.

The investment being sought by Water Holdings CHB from Council is for \$250,000.

Water Holdings CHB have proposed that these funds will be matched by the shareholders/ private investors and a funding grant being sought from Governments Provincial Growth Fund (PGF).

The Table below provides a breakdown of the funding split that makes up the total proposed quantum of funds being sought.

Table 1. Water Holdings CHB Investment Split.

Funder	Quantum	Comment
Provincial Growth Fund	\$250,000	Not confirmed
Water Holdings CHB	\$100,000	Investment todate, purchasing IP
Other	\$50,000	To be confirmed from other partners
CHBDC	\$250,000	Council investment being sought
Total	\$650,000	

Councils Proposed Investment

It is proposed Council's funding will be made available via the Rural Ward Fund.

The purpose of the Rural Ward Fund is to provide targeted funding for key recreational and infrastructure projects.

The Special Funds Policy is the Council policy which governs the use of the Rural Ward Fund. The Rural Fund, also known as the Ruataniwha Ward Disbursement Reserve Account was established following the 1989 Central Hawke's Bay Councils amalgamations.

The fund was established to provide funds for the provision or maintenance of recreational, cultural or infrastructural assets within the Ruataniwha Ward.

The Special Funds Policy states that unless otherwise stated, only the interest earned on each fund shall be available to be spent thereby preserving the individual fund amounts. A decision by Council to provide \$250,000.00 by way of suspensory loan to Water Holdings CHB, would require an amendment to the Special Funds Policy given the current policy is limited to only granting interest earned.

As reported in the Council 2017/18 Annual Plan the Ruataniwha Water Storage Scheme was supported by Council and viewed as a key infrastructure development, from which Council would consider to take water to service communities needs.

In addition to providing a water source, the project as proposed was projected to result in significant economic benefit and Water Holdings CHB believe any such adaptation of the original proposal will have comparable 'scaled' benefits for the region and further economic development, as to a range of further value add outputs for the District and Region as a whole, that could include:

- Improved summer flows in the Tukituki River
- Improved river health and habitat
- A predicted increase of between 1.9-5.5% in current GDP (between \$130 to \$380million a year by full water uptake)
- The potential to create between 1,130 and 3,580 jobs across Hawkes Bay through increased activity and its flow-on impacts

(Based on RWSS benefits assessment)

Water Holdings CHB propose to use the funding sought from Council to review the Ruataniwha Water Storage Scheme intellectual property to examine two scenarios for water storage and distribution, being.

Option 1 – developing a full scale Makaroro Dam, providing for low flow allowances.

Option 2 – build a lower dam, with no provision of environmental flows and reduced regional impact.

We believe the proposed structure of the funding is consistent with the intent of the fund and the potential benefits to the district could be significant. While the Rural Ward Fund has typically been used for Council owned assets, the policy does not specify that it must be Council assets.

Councils current investments policy limits equity investments to shares. The proposition to provide funding to Water Holdings CHB via a suspensory loan is considered an investment because of the nature of the proposed key terms and conditions.

For Council to go ahead with this proposal a slight change in the current Investment Policy would be required to allow this structure.

This would include the addition of “and other structures” in the definition of equity investments and can be outlined below.

It may be appropriate to have limited investment(s) in equity (shares) and other structures when Council wishes to invest for strategic, economic development or social reasons, such as Local Government Insurance Corp^[1].

Council will approve equity investments on a case-by-case basis, if and when they arise.

^[1] Council currently holds 8,290 shares in the NZ Local Government Insurance Corporation Ltd. The purpose of the entity, in which most local authorities are shareholders, is to ensure that adequate insurance arrangements are available to local authorities at the lowest possible cost. The shares are not readily transferable.

Both changes to the Special Funds Policy and Investments Policy (attached to this paper) can be achieved via Council resolution.

Commercial Structuring

The proposed investment being sought by Water Holdings CHB is not a unique investment precedent. There are multiple examples whereby private/ public investment has been made into large scale infrastructure/ social infrastructure projects by Government and Councils, where there is a direct tangible community benefit and return.

What is unique with Water Holdings CHB proposal is the level of investment made to date in validating and designing a scaled water storage development. It is worth noting that the investment to date was via the Hawke’s Bay Regional Investment Company before the transfer of the IP to Water Holdings CHB.

In Council making any form of investment, whether by way of a grant, loan or as a direct investment; careful consideration needs to be given to how the funds will be used and what caveats or conditions will be imposed so as to ensure Councils position is protected. The nature of the caveats or conditions will largely depend on the commercial structure Council elects to choose.

There are a range of options for Council in making the investment proposed, the following options have been considered by Council.

Grant	A grant would comprise of a one off non repayable grant of monies provided as payment for a set of outputs. Payment can made in advance, milestone or upon the successful completion of the contracted outputs. The grant would be documented between the parties via a funding agreement. The funding agreement would set out the mechanism by
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	<p>which the investment would be made, timings for payments, requirements and outputs of the funding.</p> <p>This approach is similar to how Government allocates its investment in similar activities.</p>
Non interest bearing loan	<p>Non interest bearing – A non interest bearing loan is a repayable facility that accrues nil interest. In the instance of the investment proposed, the interest would be registered over the all of the IP and repayment could be time bound i.e. a set term or upon a agreed trigger being effected (implementation or divestment).</p> <p>The legal and accounting structures around establishing such a facility would be alot more complex than that of a grant or suspensory loan and the establishment and ongoing compliance requirements would be costly. The facility would also need to be accounted for as a liability on Council's books.</p> <p>If Council were going to pursue this option further legal and accounting advice on this matter would be required.</p>
Interest bearing loan	<p>An interest bearing loan would see Council investments being treated as conventional loan facility at an agreed rate of return. The level of return could be based on Council's cost of borrowing plus an agreed basis points adjustment to cover the cost of administration. This is likely to be circa 3.5 to 3.7%.</p> <p>The legal and accounting structures around establishing such a facility would be alot more complex than that of a grant or suspensory loan and the establishment and ongoing compliance requirements would be costly, however recoverable via the cost of funding. The facility would also need to be accounted for as a liability on Councils books.</p>
Investment for ownership stake	<p>An alternative to Council making a grant or providing a loan would be Council making a direct investment into the Water Holdings CHB for a shareholding in the entity and Councils ongoing role could be passive or active whereby it seeks a governance and decision making position in the entity. Investment in ownership would also trigger the need to assess whether it meets the test to become a Council Controlled Organisation, adding a further layer of audit and legislative requirements.</p> <p>The risk of assuming such a role will be an ongoing requirement or potential for further investment being required as to Council's role potentially becoming confused.</p>

While the options above were considered Council's preferred option, and what they are seeking feedback from the community on is the proposition of a suspensory loan.

A loan can be made in a number of forms, being

Suspensory – A suspensory loan is generally a non repayable loan, that is dispensed over time or upon the completion of a set of agreed outputs.

A suspensory loan normally is not repayable, however there can be mechanisms whereby repayment can be required.

In the instance of the investment being proposed this could include Water Holdings CHB commercialisation of the IP or the sale, divestment or transfer of IP or the company who holds the IP.

With a suspensory loan there is normally no requirement for a guarantee or security interest to be noted.

Strategic Alignment

Water Holdings CHB's work strategically aligns with the Regional Economic Development Strategy – Matariki, the CHB Water Taskforce objectives of providing security/ quality of supply of water across the District.

The proposal and the economic benefits of the proposal also aligns directly with Council's own development objectives - Thrive. Which upon the successful implementation will result in further economic growth and development, attract and retain business and whanau and result in an environmentally responsible response to providing additional resilience and water security for the region.

Water Holdings CHB have also proactively engaged with mana whenua at a Taiwhenua level, who passed a motion at the most recent board meeting supporting the proposal and the benefits of the proposal (implementation) in increasing water in the Tukituki and tributaries.

Overview

Whilst the investment being sought is not significant in the context of the overall potential opportunity, it is still a significant sum of monies for Council to consider and the final implementation and commercialisation of the IP will require a significant level of investment to be made.

In terms of the investment being treated as a loan, we believe the most appropriate mechanism would be for Council's investment into Water Holdings CHB to be a suspensory loan, with the following condition precedents for repayments or dispensation of liabilities:

Repayment:

- The sale or divestment of Water Holdings CHB.
- The transfer of IP to a subsidiary entity or third party, other than Council.

Dispensation:

- The development of water storage facilities and measureable economic benefits being created and realised; being:
 1. Water security (agreed m3 quantum).
 2. Employment.
 3. New business/ investment.

4. The review of IP does not identify any tangible or financially sustainable water storage solution that can be implemented.

We believe if Water Holdings CHB do receive a dispensation under point 4 Council should as condition of the loan agreement have access to all IP obtained and developed by Water Holdings CHB as part of the investigation exercise.

The basis of payment of any funds we would also recommend are made on a milestone basis being the completion or satisfaction of agreed outputs. This will protect Council's position and the potential for any loss. It will also ensure if the initiative is not feasible there will be a short NO rather than a long NO with any unnecessary Council expenditure not occurring. This will also provide a feedback loop for reporting purposes.

Next Steps

Council and Water Holdings CHB will need to agree the upfront Key Commercial Terms (KCT's) in advance of any funding agreement being confirmed. The KCTs will form the basis of the funding agreement.

This will also mitigate any unnecessary costs in drafting the agreements between the parties as well as confirm upfront and earlier the expectations of the two parties.

The KCT's will set out the requirements of the parties, expectations and key deliverables tagged to the funding. The KCT's will provide the framework for documenting the agreement.

In terms of recommendations in making any payment, suggested conditions are as follows:

1. Prior to any funds being released Water Holdings CHB provide a full work programme and budget for expenditure
2. Water Holding CHB confirm the funding sources for undertaking the works and commitment of funds
3. The release of Council funds are milestone and ideally matched (prorated) by shareholder, private or other investment.
4. Failure to complete will provide for a default of the IP to Council. We believe this will be of benefit to Council for other purposes.
5. There is regular reporting.

Community Consultation

It is important to note at this point that the proposed investment is only that - a proposal.

Council have deemed community engagement and consultation as an important step so that Elected Members can make an informed decision as to whether this investment should be made. Council will be consulting with the community as part of the Draft Annual Plan 2019/2020.

Conclusion

The proposed investment being sought by Water Holdings CHB from Council is not inconsistent with investments made by Government and Councils into strategic infrastructure/ social infrastructure projects.

The proposal aligns strategically with Council's and the Region's wider economic strategies and the uniqueness of the investment made to date can be augmented into a potential project of significant value to the District, subject to a range of external variables being confirmed.

There are a range of commercial structuring options available to Council in making this investment. On the basis of wanting to manage risk Council Officers would recommend Council make this investment on the basis of suspensory loan. The loan will be subject to the parties agreeing a set of KCT's prior to any agreement drafting is undertaken.

Central Hawke's Bay District Council	POLICY MANUAL	
	Document #	7.20
<i>SPECIAL FUND ACCOUNTS POLICY</i>	Approved by:	Council
	Adoption Date:	14-12-2017
	Last Amended:	14-12-2017

	Review Date:	December 2020
	Page:	Page 1 of 3

That Council operate Special Fund Accounts in terms of this Policy.

All Special Fund Accounts shall be pooled for the purpose of accounting and investment.

That investments made from the Special Fund Account Pool be made in accordance with Council's Investment Policy.

That at no time will any Special Fund Account be taken into a debit balance position.

That interest payments, capital gains or losses be credited/charged on a pro-rata basis to all Special Fund Accounts within the pool.

Unless otherwise stated, only the interest earned on each fund shall be available to be spent thereby preserving the individual fund amounts.

DESCRIPTION OF PURPOSES STATEMENT

Special Funds are those funds, or reserves, which Council has established by resolution, the terms of which restricts the use of the funds. Each fund has been set up as a separate account to maintain a degree of independence from Council's general funds. All funds are invested as part of a larger pool of funds and are not available for any other purpose.

ELECTION AND BY-ELECTION FUNDING RESERVE

To provide for the smoothing of election expenses by the annual transfer of funds to the account.

MAYOR'S FUND

To provide for payments to worthy individuals or groups at the sole discretion of the Mayor.

Income for this fund comes from public donations, and if required, an allocation of interest from Special Fund Investments.

The balance of the Fund will be maintained at a minimum of \$5,000 as at each 30th June.

The Mayor will report to Council on a 6 monthly basis on expenditure from this Fund.

RURAL FIRES RESERVE

To provide funds for the non-recoverable costs incurred by Council in fighting rural fires.

The value of the fund should be preserved by transfers from the Fire Control Account so that a level of \$25,000 is maintained and annually adjusted for inflation using the cost of construction index.

ESPLANADE RESERVE FUND

To provide immediate finance to; purchase land, pay legal costs, pay survey costs or pay acquisition costs associated with the purchase or access to Esplanade Reserve land as and when it becomes available.

Withdrawals from this fund will only be made when the purchase or access to Esplanade Reserve land has been approved by Council.

TE AUTE DRAIN CHANNEL CLEARING RESERVE

To provide funds for the programmed clearing of channels and major maintenance of the system. Funds may be provided annually from the Te Aute Drainage Rate for the maintenance of this account.

RETIREMENT HOUSING DEPRECIATION RESERVE ACCOUNT

To provide for extensions, major upgrading, major maintenance or capital purchases whenever such is necessary in the provision of Retirement Housing or other social housing facilities within the district. Funds will be provided annually from the Retirement Housing rentals for the maintenance of this account.

The fund may also be used at the discretion of Council for any reviews undertaken of Retirement Housing and consideration of future options with regards to social housing generally in Central Hawke's Bay.

ADVERSE EVENTS CONTINGENCY

To provide funds to assist with the repairs to or to replace damaged Council assets in the event of an unforeseen, major, short duration, natural event. Adverse events include those that would not normally be covered by operational expenditure and those not covered by insurance. Each adverse event will be assessed on a case by case basis. In the case of an adverse roading event the New Zealand Transport Agency definition of an emergency will be used.

The value of the fund should be preserved by transfers from the appropriate operational rate so that a level of \$500,000 is maintained and annually adjusted for inflation using the cost of construction index.

CATASTROPHIC EVENTS FUND

To provide funds for the financial protection of the district in the event of an unforeseen catastrophic natural event.

This event would be such that substantial damage occurred to the vital infrastructure of the district.

Each catastrophic event will be assessed on a case by case basis.

There are three ways these funds may be used.

1. The capital sum used to repair damage to infrastructure assets.
2. The sum used to provide the "first cover" of an insurance policy for the district's infrastructural assets.

3. The sum used as part or all of Council's contribution to a proposed co-operative national emergency fund.

The value of this fund should be preserved by transfers from the appropriate operational rate so that a level of \$2.0 million is maintained and annually adjusted for inflation using the cost of construction index.

INFRASTRUCTURE PROTECTION RESERVE

To provide funds for the financial protection of the district in the event of an unforeseen catastrophic natural event on infrastructure assets.

The fund may be used to replace/repair damage to assets or infrastructure caused by a natural disaster/event.

ARAMOANA WARD DISBURSEMENT FUND

To provide funds for the provision or maintenance of recreational, cultural or infrastructural assets within the Aramoana Ward.

RUAHINE WARD HALLS MAINTENANCE RESERVE

To provide funds for the larger maintenance items of the Ward Halls in the Ruahine Ward to enable them to operate without large fluctuations in rate requirements due to major maintenance.

RUAHINE WARD DISBURSEMENT RESERVE ACCOUNT

To provide funds for the provision or maintenance of recreational, cultural or infrastructural assets within the Ruahine Ward.

RUATANIWHA WARD DISBURSEMENT RESERVE ACCOUNT

To provide funds for the provision or maintenance of recreational, cultural or infrastructural assets within the Ruataniwha Ward.

CAPITAL PROJECTS FUND

To provide funds for the purchase or construction of recreational, cultural or infrastructural assets anywhere in the district.

The funds will be used to provide substantial assistance for the provision of new facilities.

The net proceeds from the sale of Council owned Infrastructure, Land and Buildings, shall be credited to this Fund.

WAIPAWA BUILDING SOCIETY SCHOLARSHIP TRUST FUND

A fund held in trust for the trustees of the scholarship to enable them to allocate grants to assist with further education for selected residents of Central Hawke’s Bay district who are intending to attend, or are attending, a course of tertiary education.

ERIC TATE SCHOLARSHIP TRUST FUND

A fund held in trust for the trustees of the scholarship to enable them to allocate grants to assist with further education for selected CHB College students who normally reside in the district served by the former Waipawa District High School.

	Document #	7.19
TREASURY MANAGEMENT POLICY INCLUDING LIABILITY MANAGEMENT AND INVESTMENT POLICIES	Approved by:	Council
	Adoption Date:	5 May 2016
	Last Amended:	New
	Review Date:	May 2019
	Page:	Page 1 of 23

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1. Introduction

1. Policy purpose

The purpose of the Treasury Management Policy (“Policy”) is to outline approved policies and procedures in respect of all treasury activity to be undertaken by Central Hawke’s Bay District Council (“Council”). The formalisation of such policies and procedures will enable treasury risks within Council to be prudently managed.

As circumstances change, the policies and procedures outlined in this Policy will be modified to ensure that treasury risks within Council continue to be well managed.

It is intended that the Policy be distributed to all personnel involved in any aspect of the Council’s financial management. In this respect, all staff must be completely familiar with their responsibilities under the Policy at all times.

2. Scope and objectives

1. Scope

- This document identifies the Policy of Council in respect of treasury management activities, incorporating both borrowing and investment activity.
- The Policy has not been prepared to cover other aspects of Council’s operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of Council cover these matters.

2. Treasury management objectives

The objective of this Policy is to control and manage costs, investment returns and risks associated with treasury management activities, incorporating both borrowing and investment activity.

Statutory objectives

- All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local

Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.

- Council is governed by the following relevant legislation:
- Local Government Act 2002, in particular Part 6 including sections 101, 102, 104, 105 and 113.
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
- Trustee Act 1956. When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself, without charging any rate or rates revenue as security.
- A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:
 - The period of indebtedness is less than 91 days (including rollovers); or
 - The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, 5.0% of the Council's consolidated annual operating budget for the year (as determined by Council's Significance and Engagement Policy).

General objectives

- Ensure that all statutory requirements of a financial nature are adhered to.
- Minimise Council's costs and risks in the management of its external borrowings.
- Minimise Council's exposure to adverse interest rate movements.
- Arrange and structure external long term funding for Council at a favourable margin and cost from debt lenders. Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Policy statement.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- Manage investments to optimise returns in the long term whilst balancing risk and return considerations.
- Develop and maintain relationships with financial institutions, brokers and LGFA.
- Comply, monitor and report on borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Borrow funds, invest and transact risk management instruments within an environment of control and compliance.
- Monitor, evaluate and report on treasury performance.

- Ensure the Council, management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- Ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.

In meeting the above objectives Council is, above all, a risk averse entity and does not seek risk in its treasury activities. Interest rate risk, liquidity risk, funding risk, investment risk or credit risk, and operational risks are all risks which Council seeks to manage, not capitalise on. Accordingly activity which may be construed as speculative in nature is expressly forbidden.

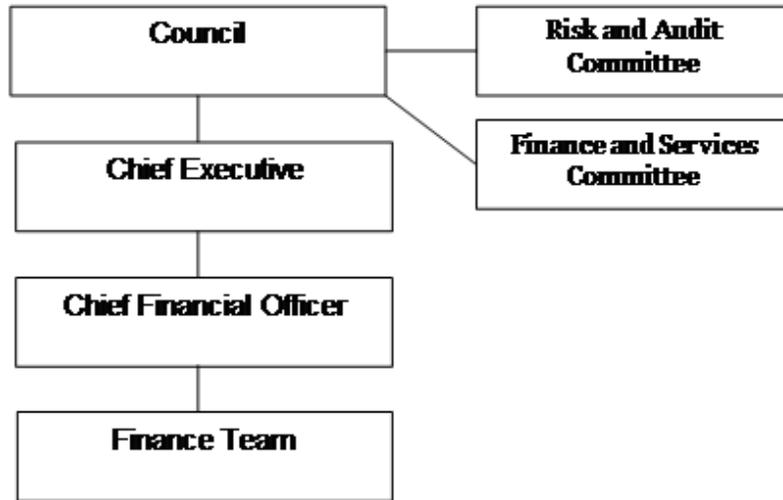
3. Policy setting and management

Council approves Policy parameters in relation to its treasury activities. The CE has overall financial management responsibility for the Council's borrowing and investments, and related activities.

The Council exercises ongoing governance over its subsidiary companies (CCO/CCTO), through the process of approving the Constitutions, Statements of Intent, and the appointment of Directors/Trustees of these organisations.

3. **Governance and management responsibilities**
 1. **Overview of management structure**

The following diagram illustrates those individuals and bodies who have treasury responsibilities. Authority levels, reporting lines and treasury duties and responsibilities are outlined in the following section:



2. Council

The Council has ultimate responsibility for ensuring that there is an effective Policy for the management of its risks. In this respect the Council decides the level and nature of risks that are acceptable, given Council's statutory objectives.

The Council is responsible for approving the Policy. While the Policy can be reviewed and changes recommended by other persons, the authority to make or change Policy cannot be delegated.

In this respect, the Council has responsibility for:

- Approving the long-term financial position of Council through the Long Term Plan (LTP) and Financial Strategy along with the adopted Annual Plan.
- Approve and adopt the Liability Management and Investment Policies (the Treasury Management Policy).
- Approval for one-off transactions falling outside Policy.

3. Finance and Services Committee

Under delegation from Council:

- Monitor and review treasury activity through at least six monthly reporting, supplemented by exception reporting.

4. Risk and Audit Committee

Under delegation from Council:

- Review formally, on a three yearly basis, the Treasury Management Policy document.
- Evaluate and recommend amendments to the Treasury Management Policy to Council.

5. 3.5 Chief Executive Officer (CE)

While the Council has final responsibility for the Policy governing the

management of treasury risks, it delegates overall responsibility for the day-to-day management of such risks to the CE. The CE has approval and monitoring responsibilities over the treasury function.

6. Chief Financial Officer (CFO) and Finance Team

The CFO along with the Finance Team share the treasury tasks and responsibilities of the treasury function ensuring an adequate segregation of treasury duties and cross-checking of treasury activity. Oversight is maintained by the CE through regular reporting and approval delegations.

7. Delegation of authority and authority limits

Treasury transactions entered into without the proper authority are difficult to cancel given the legal doctrine of “apparent authority”. Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays).

To prevent these types of situations, Council’s Delegations Register must be complied with at all times.

4. Liability Management Policy

1. Introduction

Council’s liabilities comprise of borrowings and various other liabilities. Council maintains external borrowings in order to:

- Raise specific debt associated with projects and capital expenditures.
- Raise finance leases for fixed asset purchases.
- Fund the balance sheet as a whole, including working capital requirements.
- Fund assets whose useful lives extend over several generations of ratepayers.

Borrowing provides a basis to achieve inter-generational equity by aligning long-term assets with long-term funding sources, and ensure that the cost are met by those ratepayers benefiting from the investment.

2. Borrowing limits

Debt will be managed within the following limits:

Item	Council Limit
Net External Debt / Total Revenue	<95%
Net Interest on External Debt / Total Revenue	<10%
Net Interest on External Debt / Annual Rates Income	<20%
External, term debt + committed bank facilities + unencumbered cash/cash equivalents to existing external debt.	>130%
Total debt per head of population	<\$2,000

- Total Revenue is defined as cash earnings from rates, government capital grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net external debt is defined as total external debt less unencumbered cash/cash equivalents.
- The liquidity ratio is defined as external debt plus committed bank facilities, plus unencumbered cash/cash equivalents divided by external debt.
- Net interest on external debt is defined as the amount equal to all interest and financing costs (on external debt) less interest income for the relevant period.
- Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 (including volumetric water charges levied) together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).
- Financial covenants are measured on Council only not consolidated group.
- Disaster recovery requirements, urgent financing of emergency-related works and services are to be met through the special funds and liquidity policy.

3. **Asset management plans**

In approving new debt Council considers the impact on its external borrowing limits as well as the economic life of the asset that is being funded and its overall consistency with Council's LTP and Financial Strategy.

4. **Borrowing mechanisms**

Council is able to externally borrow through a variety of market mechanisms including issuing stock/bonds, commercial paper (CP), direct bank borrowing, accessing the short and long-term wholesale debt capital markets either directly or through the LGFA, or internal borrowing of reserve and special funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the following is taken into account:

- The size and the economic life of the project.
- Available terms from banks, the LGFA and debt capital markets.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins relative to term for debt issuance, the LGFA, debt capital markets and bank borrowing.
- The market's outlook on future interest rate movements as well as its own.
- Legal documentation and financial covenants considerations.
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong financial standing and manage its relationships with the LGFA, and financial institutions/brokers.

5. **Security**

Council's external borrowings and interest rate management instruments will generally be secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government Rating Act. The security offered by Council ranks equally or pari passu with other lenders.

From time to time, and with Council approval (or through an approved person as per the delegations register), security may be offered by providing a charge over one or more of Councils assets, where it is beneficial and cost effective to do so.

- Any internal borrowing will be on an unsecured basis.
- Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Trust Deed.

6. Debt repayment

The funds from all asset sales, operating surpluses, grants and subsidies will be applied to specific projects or the reduction of debt and/or a reduction in borrowing requirements, unless the Council specifically directs that the funds will be put to another use.

Debt will be repaid as it falls due in accordance with the applicable borrowing arrangement. Subject to the appropriate approval and policy limits, a loan may be rolled over or re-negotiated as and when appropriate.

Council will manage debt on a portfolio basis and will only externally borrow when it is commercially prudent to do so.

7. Guarantees/contingent liabilities and other financial arrangements

Council may act as guarantor to financial institutions on loans or enter into incidental arrangements for organisations, clubs, trusts, or Business Units, when the purposes of the loan are in line with Council's strategic objectives.

Council is not allowed to guarantee loans to Council-controlled trading organisations under Section 62 of the Local Government Act.

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed any amount agreed by Council in aggregate. The Finance Team monitors guarantees and reports six-monthly to the CE.

8. Internal borrowing of special funds

Special Funds must generally be used for the purposes for which they have been set aside. Council currently has a Capital Projects Fund, a Disaster Fund and an Adverse Event Fund, held for the benefit of all ratepayers. Council may, however, modify such purposes from time to time. Funds held in excess of the special funds requirement are held as ratepayers equity reserves, and can be utilised as needed. Recorded special fund balances must be used for their intended purpose.

Council maintains its funds in short term maturities emphasising counterparty credit worthiness and liquidity. The interest rate yield achieved on the funds therefore is a secondary objective. Liquid assets are required to be held physically against Special Fund amounts.

Any internal borrowing of equity reserves must be reimbursed for interest revenue lost.

The cost of internal borrowing is set by the Finance Team from time to time.

For reasons of cost distribution, records on internal borrowings will be maintained to ensure Funds are not disadvantaged.

9. **New Zealand Local Government Funding Agency (LGFA) Limited**

Despite anything earlier in this Policy, Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA. For example borrower notes.
- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required.
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.
- Subscribe for shares and uncalled capital in the LGFA.

5. **Investment Policy**

1. **Introduction**

Council generally holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity. Generating a commercial return on strategic investments is considered a secondary objective. Investments and associated risks are monitored and managed, and reported at least six-monthly to the Finance and Services Committee. Specific purposes for maintaining investments include:

- For strategic and intergenerational purposes consistent with Council's LTP and AP.
- The retention of vested land.
- Holding short term investments for working capital and liquidity requirements.
- Holding assets (such as property and land parcels) for commercial returns.
- Provide ready cash in the event of a natural disaster. The use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- Invest amounts allocated to specific reserves.
- Invest funds allocated for approved future expenditure.
- Invest proceeds from the sale of assets.

Council recognises that as a responsible public authority all investments held, should be low risk, giving preference to conservative investment policies and avoiding speculative investments. Council also recognises that low risk investments generally mean lower returns.

To minimise raising external debt, Council can internally borrow from equity, reserves and investment funds, in the first instance to meet operational and capital spending requirements.

2. **Policy**

Council's general Policy on investments is that:

- Council may hold financial, property, and equity investments if there are strategic, commercial, and economic or other valid reasons.
- Council will keep under review its approach to all investments and the credit rating of approved creditworthy counterparties.

3. **Mix of investments**

Council maintains investments in the following assets:

- Equity investments
- Property investments
- Financial investments

4. **Equity investments**

It may be appropriate to have limited investment(s) in equity (shares) when Council wishes to invest for strategic, economic development or social reasons, such as Local Government Insurance Corp^[1].

Council will approve equity investments on a case-by-case basis, if and when they arise.

Generally such investments will be (but not limited to) Council Controlled Trading Organisations (CCTO) or Council Controlled Organisations (CCO) to further district or regional economic development. Council does not invest in offshore entities.

Council reviews performance of these investments as part of the annual planning process to ensure that stated objectives are being achieved.

Any disposition of these investments requires approval by Council. Acquisition of new equity investments requires Council approval. The proceeds from the disposition of equity investments will be taken to the Capital Projects Fund. .

All income, including dividends, from Council's equity investments is included in general revenue.

Equity investment performance is reported to the Finance and Services Committee at least annually, along with the consideration of and approval of the Statement of Intent.

1. New Zealand Local Government Funding Agency Limited

Despite anything earlier in this Policy, Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

Council's objective in making any such investment will be to:

- Obtain a return on the investment.
- Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.

As a borrower, Council's LGFA investment includes borrower notes.

5. Property investments

Council's overall objective is to only own property that is necessary to achieve its strategic objectives as stated in the LTP or deemed to be a core Council function. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. Council generally follows similar assessment criteria in relation to new property investments.

Council reviews the performance of its property investments at least annually and ensures that the benefits of continued ownership are consistent with its stated objectives. Council's policy is to dispose of any property that does not achieve a commercial return having regard to any restrictions on title or other requirements or needs to achieve Council objectives. All income, including rentals and ground rent from property investments is included in the consolidated revenue account. All rented or leased properties will be at an acceptable commercial rate of return so as to minimise the rating input, except where Council has identified a level of subsidy that is appropriate.

Proceeds from the disposition of property investments are used firstly in the retirement of related debt and then are credited to the Capital Projects Fund.

Council's investment in properties, other than reserves and those required for own occupation and infrastructural services, will not exceed 50% of total fixed assets.

Any purchased properties must be supported by a current registered valuation, substantiated by management including a fully worked capital expenditure analysis.

6. Financial investments

Objectives

Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 5.4. Credit ratings are monitored and reported at least six-monthly.

Council may invest in approved financial instruments as set out in section 6.2. These investments are aligned with Council's objective of investing in high credit quality and liquid assets. The CE approves the investment strategy within the scope and parameters of this policy and does so with input from Council's investment advisors.

Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:

- Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
- Council may choose to hold specific reserves in cash and financial investments. Interest income relating to special reserves is allocated to those accounts annually based on the opening balance.
- Internal borrowing will be used wherever possible to minimise external borrowing.
- Financial investments do not include shares/equities.

- All unsecured financial investment must be senior in ranking. Subordinated and perpetual debt instruments are not permitted.

Special funds

Liquid assets are required to be held against recorded Special Fund amounts.

Trust funds

Where Council hold funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the Trust Deed. If the Trust's Investment Policy is not specified then this Policy should apply.

7. Investment management and reporting procedures

Council's policy for the management and reporting of investments includes:

- The legislative necessity to maintain efficient financial systems for the recording and reporting (inter alia) of:
 - All revenues and expenditures;
 - All assets and liabilities; and
 - The treatment and application of special funds.
- Adherence to Council's financial processes and delegations to Council's staff to invest surplus short-term funds and negotiate reinvestments, subject to the provision of adequate cash resources to meet normal expected cash demands;
- Treasury reporting is completed on at least a six-monthly basis.

6. Risk recognition / identification management

The definition and recognition of liquidity, funding, investment, interest rate, counterparty credit, operational and legal risk of Council is detailed below and applies to both the Liability Management Policy and Investment Policy.

1. Interest rate risk on external borrowing

1. Risk recognition

Interest rate risk is the risk that funding costs (due to adverse movements in market wholesale interest rates) will materially exceed or fall short of projections included in the LTP or Annual Plan so as to adversely impact revenue projections, cost control and capital investment decisions.

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing/hedging of interest costs. Certainty around interest costs is to be achieved through the management of underlying interest rate exposures.

2. Interest rate risk control limits

Exposure to interest rate risk is managed and mitigated through the risk control limits below. Council's forecast core external debt should be within the following fixed/floating interest rate risk control limit, and will apply when forecast 12 month core debt exceeds \$10 million.

Core external debt is defined as gross external debt. When approved forecasts are changed, the amount of fixed rate protection in place may have to be adjusted to ensure compliance with the Policy minimums and maximums.

Master Fixed / Floating Risk Control Limits	
Minimum Fixed Rate	Maximum Fixed Rate
50%	95%

“Fixed Rate” is defined as an interest rate repricing date beyond 12 months forward on a continuous rolling basis.

“Floating Rate” is defined as an interest rate repricing within 12 months.

The percentages are calculated on the rolling 12 month projected core debt level calculated by management (signed off by the CE).

The fixed rate amount at any point in time should be within the following maturity bands:

Fixed Rate Maturity Limit		
Period	Minimum Hedge %	Maximum Hedge %
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	0%	60%

A fixed rate maturity position that is outside the above limits, however self corrects within 90-days is not in breach of this Policy. Maintaining a maturity profile beyond 90-days requires specific approval by Council.

- Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.
- Any interest rate swaps with a maturity beyond 10 years must be approved by Council.
- Hedging outside the above risk parameters must be approved by Council.
- At all times these instruments must be used within the context of the prudent financial objectives of Council’s treasury function.

2. **Approved financial instruments**

Approved financial instruments (which do not include shares or equities) are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities Loan stock /bond issuance <ul style="list-style-type: none"> • Floating Rate Note (FRN)

	<ul style="list-style-type: none"> • Fixed Rate Note (Medium Term Note/Bond) • Commercial paper (CP)/Promissory notes
Financial investments – no more than 12-month term (except for LGFA borrower notes, investments linked to debt pre-funding and bank bonds)	<ul style="list-style-type: none"> • Bank call/term deposits • Bank registered certificates of deposit (RCDs) • Secured/unsecured senior bank bonds for terms up to 5-years • LGFA borrower notes
Interest rate risk management	<ul style="list-style-type: none"> • Forward rate agreements (“FRAs”) on: <ul style="list-style-type: none"> • Bank bills • Interest rate swaps including: <ul style="list-style-type: none"> • Forward start swaps. Start date <24 months, unless linked to existing maturing swaps • Swap maturity extensions and shortenings • Interest rate options on: <ul style="list-style-type: none"> • Bank bills (purchased caps and one for one collars) • Interest rate swaptions (purchased swaptions and one for one collars only)
Foreign exchange management	<ul style="list-style-type: none"> • Spot foreign exchange • Forward exchange contracts (including par forwards)
Carbon price risk management	<ul style="list-style-type: none"> • New Zealand Units (NZUs) and Assigned Amount Units (NZAAUs) • Emission Reduction Units (ERUs), Certified Emission Reduction Units (CERs), Removal Units (RMUs) – until such time as inadmissible on the NZ Emission Trading Scheme (ETS)

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved.

3. Liquidity risk/funding risk
1. Risk recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, short-term financial investments, loans and bank facilities. Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a

future time at acceptable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to changing market conditions.

2. Liquidity/funding risk control limits

To ensure funds are available when needed Council ensures that:

- There is sufficient available operating cash flow, liquid investments (cash/cash equivalents) and unused committed bank facilities to meet cash flow requirements between rates instalments as determined by the Finance Team.
- For liquidity purposes Council maintains the following;
 - External term debt plus committed bank facilities, plus unencumbered cash/cash equivalents to existing external debt of at least 110%.
 - Unencumbered liquid financial investments (cash/cash equivalents) used for liquidity management purposes are to not have a maturity term greater than 30-days.
- Council has the ability to pre-fund up to 12 months forecast debt requirements including re-financings.
- The CE has the discretionary authority to re-finance existing external debt.
- Council will only borrow from strongly rated banks with a minimum long-term credit rating of at least “A+” (S&P, or equivalent Fitch or Moody’s rating).
- The maturity profile of the total committed funding in respect to all external term debt and committed bank facilities is to be controlled by the following system. The limits will apply when core debt exceeds \$10 million:

Period	Minimum %	Maximum %
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	0%	60%

A funding maturity profile that is outside the above limits, however self corrects within 90-days is not in breach of this Policy. Maintaining a maturity profile beyond 90-days requires specific approval by Council.

4. Counterparty credit risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by the Finance and Services Committee at least six-monthly. Treasury related transactions would only be entered into with approved counterparties.

Counterparties and limits are only approved on the basis of the following Standard & Poor's (S&P, or equivalent Fitch or Moody's rating) long and short-term credit ratings matrix. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

Counterparty /Issuer	Minimum S&P long term / short term credit rating	Investments maximum per counterparty (\$m)	Risk management instruments maximum per counterparty (\$m)	Total maximum per counterparty (\$m)
NZ Government	N/A	Unlimited	None	Unlimited
Local Government Funding Agency (LGFA)	A+/A-1	10.0	None	10.0
NZ Registered Bank	A+ /A-1	8.0 (with the exception of Council's transactional bank which may exceed this for up to 5 working days)	5.0	13.0

In determining the usage of the above gross limits, the following product weightings will be used:

- Investments (e.g. Bank Deposits) – Transaction Principal × Weighting 100% (unless a legal right of set-off exists).
- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional × Maturity (years) × 3%.
- Foreign Exchange / Carbon Credit - Transactional face value amount x (the square root of the Maturity (years) x 15%).

Credit ratings should be reviewed by the Finance Team on an ongoing basis and in the event of material credit downgrades should be immediately reported to the CE and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

Risk management

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of approved counterparties as possible. The approval process must take into account the liquidity of the market and prevailing market conditions the instrument is traded in and repriced from.

5. Foreign currency

Council has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated services, plant and equipment.

All individual commitments over NZ\$100,000 equivalent are hedged using approved foreign exchange instruments, once expenditure is approved, legal commitment occurs and the purchase

order is placed, exact timing, currency type and amount are known. Only approved foreign exchange instruments are used.

Council shall not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency. Council does not hold investments denominated in foreign currency.

6. Emissions Trading Scheme (ETS)

The objective of the ETS carbon credit policy is to minimise the financial impact of carbon price movements on Council's forward carbon liability. The objective requires balancing Council's need for price stability with the benefit of realising market opportunities to reduce costs as they arise. ETS is risk managed on a case-by-case basis, with any strategy approved by the CE.

7. Operational risk

Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls. Detailed controls and procedures are agreed between the CE and CFO on an annual basis.

8. Legal risk

Legal risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation.

Council will seek to minimise this risk by adopting Policy regarding:

- The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties.
- The matching of third party confirmations and the immediate follow-up of anomalies.
- The use of expert advice.

1. Agreements

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council. All ISDA Master Agreements for financial instruments and carbon units must be signed under seal by Council.

2. Financial covenants and other obligations

Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements. Council must comply with all obligations and reporting requirements under existing bank funding facilities, LGFA, Trustee and legislative requirements.

7. Measuring treasury performance

In order to determine the success of Council's treasury management function, the following benchmarks and performance measures have been prescribed.

Those performance measures that provide a direct measure of the performance of treasury staff are to be reported to the Finance and Services Committee on, at least, a six-monthly basis.

Management	Performance
Operational performance	<ul style="list-style-type: none"> All Policy limits must be complied with, including (but not limited to) counterparty credit limits, control limits and exposure limits. All treasury deadlines are to be met, including reporting deadlines.
Management of debt and interest rate risk (borrowing costs)	<ul style="list-style-type: none"> The actual borrowing cost (taking into consideration any costs/benefits of entering into interest rate management transactions) should be below the budgeted YTD/annual interest cost amount.
Treasury investment returns	<ul style="list-style-type: none"> The actual investment income should be above the budgeted YTD/annual interest income amount.

8. Cash management

The Finance Team has responsibility to manage the day-to-day cash and short-term cash management activities of Council. The Finance Team prepares rolling cash flow and debt forecasts to manage Council's cash management and borrowing requirements. The overdraft facility is utilised as little as practical with any operational surpluses prudently invested.

9. Reporting

When budgeting interest costs and investment returns, the actual physical position of existing loans, investments, and interest rate instruments must be taken into account.

1. Treasury reporting

Regular treasury reporting on at least a six monthly is provided to the Finance & Services Committee.

2. Accounting treatment of financial instruments

Council uses financial arrangements ("derivatives") for the primary purpose of reducing its financial risk to fluctuations in interest rates.

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Statement of Comprehensive Revenue and Expense unless derivatives are designated in an effective hedge relationship.

Council's principal objective is to manage Council's interest rate risks within approved limits and chooses not to hedge account. Council accepts that the marked-to-market gains and losses on the revaluation of derivatives can create potential volatility in Council's financial accounts.

The Finance Team is responsible for advising the CE of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of financial arrangements.

All derivative instruments must be revalued (marked-to-market) at least six-monthly for reporting purposes.

10. Policy review

The Policy is to be formally reviewed on a triennial basis in conjunction with the LTP.

The CFO has the responsibility to prepare the annual review report (following the preparation of annual financial statements) that is presented to the CE. The report will include:

- Recommendation as to changes, deletions and additions to the Policy.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of Policy and one-off approvals outside Policy.

Council receives the report, approves Policy changes and/or rejects recommendations for Policy changes. The Policy review should be completed and presented to the Council, through the Finance and Services Committee within five months of the financial year-end.

11. Appendix 1: Glossary of Terms

BKBM - The bank bill mid market settlement rate, as determined at 10.45 am each business day on Reuters page BKBM. This is the standard rate for the settlement of interest rate swaps, forward rate agreements and interest rate floors, caps and collars.

Bank Bill - A "bill of exchange" security document issued by a corporate borrower, but guaranteed by a bank, who then in turn sells the security into the bank/investor market to re-liquify itself with cash. Normally for terms of 30, 60, 90 or 180 days.

Benchmark -An agreed market related yardstick that investor returns, funding costs or average exchange rate achieved are compared against for performance measurement purposes.

Bond - The security instrument that is issued by a borrower whereby they promise to repay the principal and interest on the due dates. A bond's interest rate is always fixed.

Borrower Notes. On occasion when Council borrows from the LGFA it will be required to contribute part of that borrowing back as equity in the form of “Borrower Notes”. A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance the Council) at a future date (in this instance upon the maturity of the loan). An interest return is paid on the Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

Cap - A series or string of interest rate put options whereby a borrower can have protection against rising short term interest rates, but participate in the lower rates if market rates remain below the “capped rate.” A cap is normally for more than one 90-day funding period. Also called a “ceiling”.

Certificate of Deposit “CD” - A debt instrument (normally short term) issued by a bank to borrow funds from other banks/investors.

Closing-Out - The cancellation/termination of a financial instrument or contract before its maturity date, resulting in a realised gain/loss as the current market rate differs from the contract rate.

Collar - Two option contracts linked together into the one transaction or contract. A borrower’s collar is normally a “cap” above current market rates and a “floor” below current rates. Over the term of the collar contract, if rates go above the cap the borrower is protected and pays an interest cost no more than the cap rate. Likewise, if market rates fall below the floor, the borrower pays the floor rate and does not participate in the lower market rates. Also called a “cylinder”.

Commercial Paper - The debt security instrument issued by a prime (and normally credit-rated) borrower to raise short-term funds (30, 60, 90 or 180 days). Also called “one-name paper” and “promissory notes” issued by competitive public tender to investors, or by private treaty to one investor.

Counterparty - The contracting party to a financial transaction or financial instrument.

Covenants - Special conditions and financial ratios required to be met or maintained by a borrower for a lender under the legal security documents.

Cover - A term used to describe any action of entering financial instruments that reduces risk or puts protection in place against adverse future price movements.

Credit Rating – The credit rating of a Corporation/Council is a financial indicator to potential investors of debt securities such as bonds. These are assigned by credit rating agencies such as Standard & Poor's, Moody's or Fitch Ratings and have letter designations such as AAA, B, CC. A poor credit rating indicates a high risk of defaulting, therefore constitutes a higher level of interest rates.

Credit Risk - The risk that the other party to a financial transaction (bank deposit, interest rate swap contract) will default on or before the maturity date and not be able to fulfil their contractual obligations.

Credit Spread - The interest rate difference (expressed as basis points) between two types of debt securities. The credit spread being a reflection of the difference in credit quality, size and liquidity between the two securities e.g. five year corporate bonds may be at a credit spread of 200 basis points above Government bonds.

Debenture - A debt instrument similar to a bond whereby a borrower (normally a finance company) borrows for a longer term at a fixed rate. Also a legal instrument provided as security to a lender.

Derivative(s) - A “paper” contract whose value depends on the value of some “underlying” asset e.g. share market stocks, bank bills, bonds or foreign currency. Also called a “synthetic”. The value of the assets will change as its market price changes, the derivative instrument will correspondingly change its value.

Exercise Date/Price - The day and fixed price that an option contract is enforced/actioned or “exercised” because it is in the interests of one of the parties to the contract to do so.

Fair Value - The current market value of an off-balance sheet financial instrument should it be sold or closed-out on the market rates ruling at the balance date.

Fixed Rate - The interest rate on a debt of financial instrument is fixed and does not change from the commencement date to the maturity date.

Floating Rate - The interest rate on a loan or debt instrument is re-set at the ruling market interest rates on the maturity date of the stipulated funding period (usually 90-days).

Floor - The opposite of a “cap”. An investor will buy a floor, or a series/string of call options (the right to buy) to protect against falling interest rates, but be able to invest at higher interest rates if rates move upwards.

Forward Exchange Contract - A contract to buy and sell one currency against another at a fixed price for delivery at some specified future date.

Forward Rate Agreement - A contract (“FRA”) whereby a borrower or investor in Bank Bills agrees to borrow or invest for an agreed term (normally 90-days) at a fixed rate at some specified future date. A FRA is an “over-the-counter” contract as the amount and maturity date is tailored by the bank to the specific requirements of the borrower/investor.

Forward Starting Swap - An interest rate swap contract that commences at a future specified date. The rate for the forward starting swap will differ from the current market rate for swaps by the shape and slope of the yield curve.

Funding Risk - The risk that a borrower cannot re-finance its debt at equal or better terms at some date in the future, in terms of lending margin, bank fees and funding time commitment. Funding risk may increase due the company's own credit worthiness, industry trends or banking market conditions.

Guaranteeing borrower LGFA – a Council borrower that guarantees the interest and loan principal obligations of other Councils borrowing from the LGFA and the LGFA itself.

Hedging - The action of reducing the likelihood of financial loss by entering forward and derivative contracts that neutralise the price risk on underlying financial exposures or risks. The gain or loss due to future price movements on the underlying exposure is offset by the equal and opposite loss and gain on the hedge instrument.

ISDA - International Security Dealers Association: a governing body that determines legal documentation/standards for over-the-counter swaps/options/FRAs and other derivative instruments for interest rates, currencies, commodities etc. Corporate users of such instruments sign an ISDA Master Agreement with banking counterparties that covers all transactions.

Interest Rate Collar Strategy - The combined purchase (sale) of a floor or cap with the sale (purchase) of another floor or cap. This can be a zero premium cost strategy. See the interest rate option for further details. This product can be used by both an investor and a borrower. From a borrower's perspective, this product is transacted to provide a limited amount of participation in a downward movement in interest rates to an agreed strike rate. If the interest rate continues to move downwards, Council cannot participate in any movement beyond the strike rate. If interest rates move in an unfavourable direction (upwards) then the predetermined strike rate provides certainty through a known worst case rate. For an investor, the zero cost collar allows some participation in an increase in rates and provides a worst case rate if interest rates decline.

This product outperforms the forward rate agreement if rates fall but under performs if rates rise. This product would be used by a borrower, for known exposures, where the interest rate is expected to decline moderately from current levels.

Interest Rate Options - The purchase of an interest rate option gives the holder (in return for the payment of a premium) the right, but not the obligation, to invest (described as a floor) or borrow (described as a cap) at a future date for a specified period. Council and the counterparty agree to a notional future principal amount, the future interest rate, the benchmark dates and the benchmark rate (usually BKBM). Interest rate option products include caps, floors, swaptions and bond options.

From a borrower's perspective, these products offer Council maximum flexibility, protecting Council from a rise in rates but allowing full participation in a fall in rates. When used by an investor, this product protects Council from a decline in rates and allows full participation in rising rates.

This product is used either where there is some uncertainty in the underlying debt exposure or the outlook for interest rates is favourable but the policy requires some form of protection.

Interest Rate Swaps - A binding, paper contract where one party exchanges, or swaps, its interest payment obligations from fixed to floating basis, or floating to fixed basis. The interest payments and receipts under the swap contract being offsetting, equal and opposite to the underlying physical debt.

Liability Management - The policy, strategy and process of actively managing a portfolio of debt.

Limit(s) - The maximum or minimum amount or percentage a price or exposure may move to before some action or limitation is instigated. Also called “risk control limits”.

Liquidity Risk - The risk that a company cannot obtain cash/funds from liquid resources or bank facilities to meet foreseen and unforeseen cash requirements. The management of liquidity risk involves working capital management and external bank/credit facilities.

LGFA Bonds - A medium term note (MTN) where a fixed coupon payment is made semi-annually to the LGFA by the Council borrower over the term of the bond, or a floating rate notes (FRN) where interest is paid quarterly at a margin over the bank bill bid rate over the term of the bond.

LGFA guarantee – Provided by a guaranteeing borrower, Council guarantees the interest and principal loan obligations of other Councils that are borrowing from the LGFA and the LGFA itself. The guaranteeing amount is to proportionate to Council’s rate revenue relative to the rate revenue of all other LGFA borrowing guaranteeing Councils.

Marked-to-Market - Financial instruments and forward contracts are revalued at current market rates, producing an unrealised gain or loss compared to the book or carrying value.

Margin - The lending bank or institution’s interest margin added to the market base rate, normally expressed as a number of basis points.

Medium Term Notes (MTN) - A continuous program whereby a prime corporate borrower has issuance documentation permanently in place and can issue fixed rate bonds at short notice under standard terms.

Non - guaranteeing borrower LGFA – a Council borrower that does not guarantee the interest and loan principal obligations of other Councils borrowing from the LGFA or the LGFA itself. The Council borrower has no more that \$20 million of borrowing from the LGFA.

Revaluation - The re-stating of financial instruments and option/forward contracts at current market values, different from historical book or carrying values. If the contracts were sold/bought back (closed-out) with the counterparty at current market rates, a realised gain or loss is made. A revaluation merely brings the contract/instrument to current market value.

Roll-over - The maturity date for a funding period, where a new interest rate is reset and the debt re-advanced for another funding period.

Spot Rate - The current market rate for currencies, interest rates for immediate delivery/settlement, and normally two business days after the transaction is agreed.

Subordinated debt – Upon liquidation of a company, subordinated debt holders rank behind other senior unsecured and secured creditors.

Strike Price -The rate or price that is selected and agreed as the rate at which an option is exercised.

Swaption - An option on an interest rate swap that if exercised the swap contract is written between the parties. The option is priced and premium paid similar to bank bill and bond interest rate options.

Swaption Collar – The simultaneous position of entering into 2 option contracts on 2 interest rate swaps linked together into one transaction. A swaption collar performs similarly to a 'collar' where from a borrower's perspective a top-side position above current market rates and a bottom-side position below current market rates are entered into. On maturity of the options and depending on current interest rates relative to the strike levels on the swaps will determine if either swap is transacted.

Treasury - Generic term to describe the activities of the financial function within a company that is responsible for managing the cash resources, debt, foreign exchange risk, and sometimes the commodity price and energy price risk.

Treasury Bill - A short term (<12 months) financing instrument/security issued by a Government as part of its debt funding program.

Volatility - The degree of movement or fluctuation (expressed as a percentage) of an asset, currency, commodity or financial instrument price over time. The percentage is calculated using mean and standard deviation mathematical techniques.

Yield - Interest rate, always expressed as a percentage.

Yield Curve - The plotting of market interest rate levels from short term (90-days) to long term on a graph i.e. the difference in market interest rates from one term (maturity) to another.

[1] Council currently holds 8,290 shares in the NZ Local Government Insurance Corporation Ltd. The purpose of the entity, in which most local authorities are shareholders, is to ensure that adequate insurance arrangements are available to local authorities at the lowest possible cost. The shares are not readily transferable.

From: [redacted]
To: [Leigh Collecutt](#)
Cc: [redacted]
Subject: FW: Fwd: One page Scope document for Water Holdings CHB
Date: Thursday, 27 June 2019 1:46:22 PM
Attachments: [image021077.png](#)
[image787024.png](#)
[image589533.png](#)
[image346697.png](#)
[image627131.png](#)



[redacted]
Information Services Officer
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210
06 857 8060

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-----Original Message-----

From: Hugh Ritchie [redacted]
Sent: March 2, 2019 12:01 PM
To: Angus Mabin [redacted]; Alex Walker [mailto:xxxx.xxxxxx@xxxxx.xxxx.xx]; Mike Smith [redacted]
Subject: Fwd: One page Scope document for Water Holdings CHB

Comments welcome
Hugh

Have a good day

Begin forwarded message:

From: Tom Skerman xxx@xxxx.xxxx.xx>
Date: 2 March 2019 at 10:41:25 AM NZDT
To: Hugh Ritchie [redacted]
Subject: RE: One page Scope document for Water Holdings CHB

Thanks Hugh,

We have had regular contact with PGF officials on our application. For the reasons we have traversed in depth recently, I believe that by pushing the PGF hard for specific WHCHB funding you run the risk of it backfiring. The PGF is requiring applications and application packages to have strong regional support and not conflict with other applications. So they are having difficulty reconciling CHBDC's support for the Regional Water Security Package currently being developed by HBRC with CHBDC's support for a distinct piece of work around your IP due to CHBDC's annual plan initiative and/or a direct application by your team. Logically they would form a part of the same package and they could, but for WHCHB's reluctance to explicitly rule out inundation of the DoC land or further consequential deferral of minimum flow regimes. Now I know we could have a long debate about what is rational and what is not, but lets for the moment just embrace reality and say that because of this issue we cannot include specific WHCHB funding in our PGF package because neither HBRC or Central Government politicians (at least) believe their respective constituencies would support it.

We have discussed how the regional package is being constructed and how, for the CHB project, MAR (whether viable or not) will need to be integrated with other solutions. Accordingly, there will be a requirement to re-visit storage options in CHB based on different criteria (environmental and water security criteria ahead of, but not instead of, growth opportunities). That in turn will create an opportunity for WHCHB to advocate for a review of its assets through the project and governance structures established and approved by the PGF for the Regional Water Security Package.

WHCHB does not have a bird in the hand and two in the bush, it has 3 birds in the bush: CHBDC's annual plan proposal, WHCHB's PGF application, and the Regional Water Security Application. You might net all 3, or you may get none. Nothing is guaranteed in all of this, lest of all the success or failure of our regional application. I just wanted to provide you with a free and frank assessment of the situation as I saw it.

I acknowledge and appreciate that your motives are first and foremost for the community even though you have and will continue to be accused of representing self-interest. All the best.

From: Hugh Ritchie [redacted]
Sent: Wednesday, 27 February 2019 7:42 AM
To: Tom Skerman <xxx@xxxx.xxx.xx>
Subject: One page Scope document for Water Holdings CHB

Tom here is the outline of our proposal and will work with you / advice on next steps. In mean time we will work up an application for the PGF to meet this scope.
Hugh Ritchie

From: [redacted]
To: [Leigh Collecutt](mailto:leigh.collecutt@chbdc.govt.nz)
Cc: [redacted]
Subject: FW: Re: FW: Queries re. proposed LTP
Date: Thursday, 27 June 2019 1:58:11 PM
Attachments: [image722459.png](#)
[image010854.png](#)
[image967741.png](#)
[image153565.png](#)
[image654140.png](#)
[image152174.png](#)
[image646744.png](#)
[image001.png](#)
[image002.png](#)
[image620309.png](#)
[image574583.png](#)
[image262877.png](#)
[image307685.png](#)



[redacted]
Information Services Officer
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210
06 857 8060

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-----Original Message-----

From: Angus Mabin [redacted]
Sent: March 11, 2019 8:42 AM
To: Monique Davidson [mailto:xxxxxxxx.xxxxxxxx@xxxxx.xxxx.xx]
Subject: Re: FW: Queries re. proposed LTP

Thanks Monique, well answered. On the 20th we are having a session to focus on all the key stakeholders and work out a consultation process for each. We note this proposal is attracting a level of "environmental" interest which is not unexpected and would like to get our consultation going earlier, but a number of key players on our side have prior commitments.

Angus

On Mon, Mar 11, 2019 at 8:26 AM Monique Davidson <xxxxxxxx.xxxxxxxx@xxxxx.xxxx.xx> wrote:

FYI

-

[CHBDC Website](#)



Monique Davidson
Chief Executive
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210

06 857 8060
027 601 1711

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From: Monique Davidson <xxxxxxxxxxxxxxxx@xxxxx.xxxx.xx>
Sent: 11 March 2019 08:25 AM
To: Tom Kay <x.xxx@xxxxxxxxxxxxxxxxxxx.xx>
Cc: Monique Davidson <xxxxxxxxxxxxxxxx@xxxxx.xxxx.xx>
Subject: RE: Queries re. proposed LTP

-
Hi Tom

-
My apologies for a delayed response.

-
I have provided questions below.

-
If I can be of any further assistance, please do not hesitate to make contact. Likewise if you would like me to connect you with Water Holdings CHB I am happy to do this also.

-
Thanks

-
Monique



Monique Davidson
Chief Executive
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210

06 857 8060
[027 601 1711](tel:0276011711)

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From: Tom Kay <x.xxx@xxxxxxxxxxxxxxxxxxx.xx>
Sent: 06 March 2019 11:51 AM
To: Monique Davidson <xxxxxxxxxxxxxxxx@xxxxx.xxxx.xx>
Subject: Queries re. proposed LTP

-
Kia ora Monique,

-
I'm hoping you can help me with a few queries re. the proposed Long Term Plan, in particular on the '1. #the even bigger water story' page.

- In regard to the 'suspensory loan' from the Rural Ward Fund, could you please direct me to the policy/document that contains the criteria for use of that fund?

The two policies which the Draft Discussion Paper refer to are the Treasury Management Policy (which includes the Investment Policy) and the Special Fund Accounts Policy. I have attached both of these for you.

Both policies would require amendment, which the Discussion Paper highlights.

The Final Discussion Paper will be published at the end of this week, including the Final Consultation Document. All of this information will be on our website.

- Further re. the suspensory loan, would there be any milestones for the loan, and if so what/when would they be?

Absolutely. The Discussion Paper highlights the follows:

-

In terms of recommendations in making any payment, suggested conditions are as follows:

1. Prior to any funds being released Water Holdings CHB provide a full work programme and budget for expenditure
2. Water Holding CHB confirm the funding sources for undertaking the works and commitment of funds
3. The release of Council funds are milestone and ideally matched (prorated) by shareholder, private or other investment.
4. Failure to complete will provide for a default of the IP to Council.
5. There is regular reporting.

-

Those milestones are still to be worked through with Water Holdings CHB.

Rather than going ahead and developing a full terms and conditions sheet, which will obviously require legal input and cost money, I do not intend to pursue that work until after community consultation and deliberations by Council. This will ensure no wasted money should Council not pursue with the proposal.

- I have heard talk of investigations for a 'smaller dam without environmental flows' — is council aware of whether a smaller dam without environmental flows would avoid conservation land, or is this yet to be considered?

CHB Water Holdings are open minded, so while the above is an option that is the point of the funding that Water Holdings CHB are seeking so that they can consider all options on the table. The scope of work that Water Holdings CHB are seeking financial support for intends to work through the intellectual property and engage with key stakeholders on a number of factors involved in the current consented structure. The work will measure and prioritise the role of each factor in reaching a water storage solution that has wide community benefits and acceptance. These factors include:

-

1. The volumes of water required in the main Makaroro, Waipawa and Tukituki tributaries to achieve minimum flow rates
2. The volume of water able to be held behind different wall heights
3. The breadth and composition of distribution network required to achieve coverage of the catchment, or parts thereof
4. The role water storage in this project could play in the wider regional approach to water security in the Tukituki Catchment – including Managed Aquifer Recharge and other private or community based water storage initiatives

Thanks,

-

Tom Kay

[Lower North Island Regional Manager](#)

[Royal Forest and Bird Protection Society of New Zealand Inc.](#)
[Ground Floor, 205 Victoria Street, PO Box 631, Wellington, New Zealand](#)
[M 022 183 2729 DD 04 803 1010](#)

-

Central Hawke’s Bay District Council TREASURY MANAGEMENT POLICY INCLUDING LIABILITY MANAGEMENT AND INVESTMENT POLICIES	POLICY MANUAL	
	Document #	7.19
	Approved by:	Council
	Adoption Date:	5 May 2016
	Last Amended:	New
	Review Date:	May 2019
	Page:	Page 1 of 23

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1 Introduction

1.1 Policy purpose

The purpose of the Treasury Management Policy (“Policy”) is to outline approved policies and procedures in respect of all treasury activity to be undertaken by Central Hawke’s Bay District Council (“Council”). The formalisation of such policies and procedures will enable treasury risks within Council to be prudently managed.

As circumstances change, the policies and procedures outlined in this Policy will be modified to ensure that treasury risks within Council continue to be well managed.

It is intended that the Policy be distributed to all personnel involved in any aspect of the Council’s financial management. In this respect, all staff must be completely familiar with their responsibilities under the Policy at all times.

2 Scope and objectives

2.1 Scope

- This document identifies the Policy of Council in respect of treasury management activities, incorporating both borrowing and investment activity.
- The Policy has not been prepared to cover other aspects of Council’s operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of Council cover these matters.

2.2 Treasury management objectives

The objective of this Policy is to control and manage costs, investment returns and risks associated with treasury management activities, incorporating both borrowing and investment activity.

Statutory objectives

- All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.
- Council is governed by the following relevant legislation:
 - Local Government Act 2002, in particular Part 6 including sections 101,102, 104, 105 and 113.
 - Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
 - Trustee Act 1956. When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself, without charging any rate or rates revenue as security.
- A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:
 - The period of indebtedness is less than 91 days (including rollovers); or
 - The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, 5.0% of the Council’s consolidated annual operating budget for the year (as determined by Council’s Significance and Engagement Policy).

General objectives

- Ensure that all statutory requirements of a financial nature are adhered to.
- Minimise Council's costs and risks in the management of its external borrowings.
- Minimise Council's exposure to adverse interest rate movements.
- Arrange and structure external long term funding for Council at a favourable margin and cost from debt lenders. Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Policy statement.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- Manage investments to optimise returns in the long term whilst balancing risk and return considerations.
- Develop and maintain relationships with financial institutions, brokers and LGFA.
- Comply, monitor and report on borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Borrow funds, invest and transact risk management instruments within an environment of control and compliance.
- Monitor, evaluate and report on treasury performance.
- Ensure the Council, management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- Ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.

In meeting the above objectives Council is, above all, a risk averse entity and does not seek risk in its treasury activities. Interest rate risk, liquidity risk, funding risk, investment risk or credit risk, and operational risks are all risks which Council seeks to manage, not capitalise on. Accordingly activity which may be construed as speculative in nature is expressly forbidden.

2.3 Policy setting and management

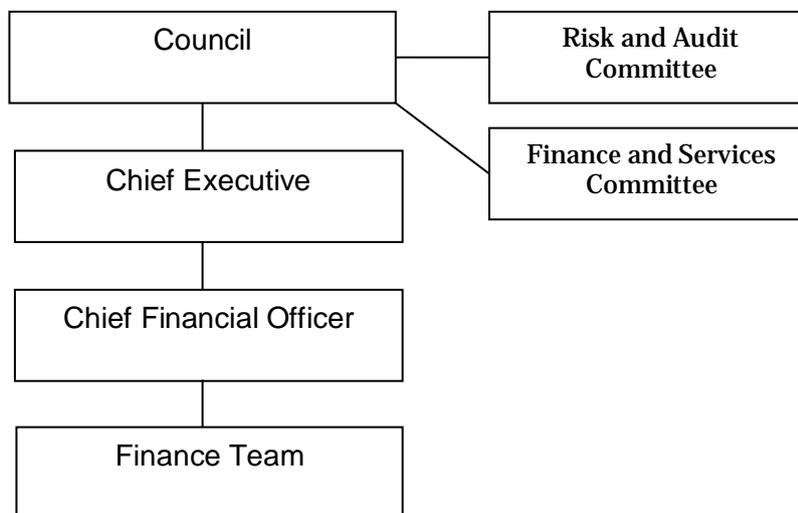
Council approves Policy parameters in relation to its treasury activities. The CE has overall financial management responsibility for the Council's borrowing and investments, and related activities.

The Council exercises ongoing governance over its subsidiary companies (CCO/CCTO), through the process of approving the Constitutions, Statements of Intent, and the appointment of Directors/Trustees of these organisations.

3 Governance and management responsibilities

3.1 Overview of management structure

The following diagram illustrates those individuals and bodies who have treasury responsibilities. Authority levels, reporting lines and treasury duties and responsibilities are outlined in the following section:



3.2 Council

The Council has ultimate responsibility for ensuring that there is an effective Policy for the management of its risks. In this respect the Council decides the level and nature of risks that are acceptable, given Council's statutory objectives.

The Council is responsible for approving the Policy. While the Policy can be reviewed and changes recommended by other persons, the authority to make or change Policy cannot be delegated.

In this respect, the Council has responsibility for:

- Approving the long-term financial position of Council through the Long Term Plan (LTP) and Financial Strategy along with the adopted Annual Plan.
- Approve and adopt the Liability Management and Investment Policies (the Treasury Management Policy).
- Approval for one-off transactions falling outside Policy.

3.3 Finance and Services Committee

Under delegation from Council:

- Monitor and review treasury activity through at least six monthly reporting, supplemented by exception reporting.

3.4 Risk and Audit Committee

Under delegation from Council:

- Review formally, on a three yearly basis, the Treasury Management Policy document.
- Evaluate and recommend amendments to the Treasury Management Policy to Council.

3.5 Chief Executive Officer (CE)

While the Council has final responsibility for the Policy governing the management of treasury risks, it delegates overall responsibility for the day-to-day management of such risks to the CE. The CE has approval and monitoring responsibilities over the treasury function.

3.6 Chief Financial Officer (CFO) and Finance Team

The CFO along with the Finance Team share the treasury tasks and responsibilities of the treasury function ensuring an adequate segregation of treasury duties and cross-checking of treasury activity. Oversight is maintained by the CE through regular reporting and approval delegations.

3.7 Delegation of authority and authority limits

Treasury transactions entered into without the proper authority are difficult to cancel given the legal doctrine of “apparent authority”. Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays).

To prevent these types of situations, Council’s Delegations Register must be complied with at all times.

4 Liability Management Policy

4.1 Introduction

Council’s liabilities comprise of borrowings and various other liabilities. Council maintains external borrowings in order to:

- Raise specific debt associated with projects and capital expenditures.
- Raise finance leases for fixed asset purchases.
- Fund the balance sheet as a whole, including working capital requirements.
- Fund assets whose useful lives extend over several generations of ratepayers.

Borrowing provides a basis to achieve inter-generational equity by aligning long-term assets with long-term funding sources, and ensure that the cost are met by those ratepayers benefiting from the investment.

4.2 Borrowing limits

Debt will be managed within the following limits:

Item	Council Limit
Net External Debt / Total Revenue	<95%
Net Interest on External Debt / Total Revenue	<10%
Net Interest on External Debt / Annual Rates Income	<20%
External, term debt + committed bank facilities + unencumbered cash/cash equivalents to existing external debt.	>130%
Total debt per head of population	<\$2,000

- Total Revenue is defined as cash earnings from rates, government capital grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net external debt is defined as total external debt less unencumbered cash/cash equivalents.

- The liquidity ratio is defined as external debt plus committed bank facilities, plus unencumbered cash/cash equivalents divided by external debt.
- Net interest on external debt is defined as the amount equal to all interest and financing costs (on external debt) less interest income for the relevant period.
- Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 (including volumetric water charges levied) together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).
- Financial covenants are measured on Council only not consolidated group.
- Disaster recovery requirements, urgent financing of emergency-related works and services are to be met through the special funds and liquidity policy.

4.3 Asset management plans

In approving new debt Council considers the impact on its external borrowing limits as well as the economic life of the asset that is being funded and its overall consistency with Council's LTP and Financial Strategy.

4.4 Borrowing mechanisms

Council is able to externally borrow through a variety of market mechanisms including issuing stock/bonds, commercial paper (CP), direct bank borrowing, accessing the short and long-term wholesale debt capital markets either directly or through the LGFA, or internal borrowing of reserve and special funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the following is taken into account:

- The size and the economic life of the project.
- Available terms from banks, the LGFA and debt capital markets.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins relative to term for debt issuance, the LGFA, debt capital markets and bank borrowing.
- The market's outlook on future interest rate movements as well as its own.
- Legal documentation and financial covenants considerations.
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong financial standing and manage its relationships with the LGFA, and financial institutions/brokers.

4.5 Security

Council's external borrowings and interest rate management instruments will generally be secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government Rating Act. The security offered by Council ranks equally or *pari passu* with other lenders.

From time to time, and with Council approval (or through an approved person as per the delegations register), security may be offered by providing a charge over one or more of Council's assets, where it is beneficial and cost effective to do so.

- Any internal borrowing will be on an unsecured basis.

- Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Trust Deed.

4.6 Debt repayment

The funds from all asset sales, operating surpluses, grants and subsidies will be applied to specific projects or the reduction of debt and/or a reduction in borrowing requirements, unless the Council specifically directs that the funds will be put to another use.

Debt will be repaid as it falls due in accordance with the applicable borrowing arrangement. Subject to the appropriate approval and policy limits, a loan may be rolled over or re-negotiated as and when appropriate.

Council will manage debt on a portfolio basis and will only externally borrow when it is commercially prudent to do so.

4.7 Guarantees/contingent liabilities and other financial arrangements

Council may act as guarantor to financial institutions on loans or enter into incidental arrangements for organisations, clubs, trusts, or Business Units, when the purposes of the loan are in line with Council's strategic objectives.

Council is not allowed to guarantee loans to Council-controlled trading organisations under Section 62 of the Local Government Act.

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed any amount agreed by Council in aggregate. The Finance Team monitors guarantees and reports six-monthly to the CE.

4.8 Internal borrowing of special funds

Special Funds must generally be used for the purposes for which they have been set aside. Council currently has a Capital Projects Fund, a Disaster Fund and an Adverse Event Fund, held for the benefit of all ratepayers. Council may, however, modify such purposes from time to time. Funds held in excess of the special funds requirement are held as ratepayers equity reserves, and can be utilised as needed. Recorded special fund balances must be used for their intended purpose.

Council maintains its funds in short term maturities emphasising counterparty credit worthiness and liquidity. The interest rate yield achieved on the funds therefore is a secondary objective. Liquid assets are required to be held physically against Special Fund amounts.

Any internal borrowing of equity reserves must be reimbursed for interest revenue lost.

The cost of internal borrowing is set by the Finance Team from time to time.

For reasons of cost distribution, records on internal borrowings will be maintained to ensure Funds are not disadvantaged.

4.9 New Zealand Local Government Funding Agency (LGFA) Limited

Despite anything earlier in this Policy, Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA. For example borrower notes.
- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required.
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.

- Subscribe for shares and uncalled capital in the LGFA.

5 Investment Policy

5.1 Introduction

Council generally holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity. Generating a commercial return on strategic investments is considered a secondary objective. Investments and associated risks are monitored and managed, and reported at least six-monthly to the Finance and Services Committee. Specific purposes for maintaining investments include:

- For strategic and intergenerational purposes consistent with Council's LTP and AP.
- The retention of vested land.
- Holding short term investments for working capital and liquidity requirements.
- Holding assets (such as property and land parcels) for commercial returns.
- Provide ready cash in the event of a natural disaster. The use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- Invest amounts allocated to specific reserves.
- Invest funds allocated for approved future expenditure.
- Invest proceeds from the sale of assets.

Council recognises that as a responsible public authority all investments held, should be low risk, giving preference to conservative investment policies and avoiding speculative investments. Council also recognises that low risk investments generally mean lower returns.

To minimise raising external debt, Council can internally borrow from equity, reserves and investment funds, in the first instance to meet operational and capital spending requirements.

5.2 Policy

Council's general Policy on investments is that:

- Council may hold financial, property, and equity investments if there are strategic, commercial, and economic or other valid reasons.
- Council will keep under review its approach to all investments and the credit rating of approved creditworthy counterparties.

5.3 Mix of investments

Council maintains investments in the following assets:

- Equity investments
- Property investments
- Financial investments

5.4 Equity investments

It may be appropriate to have limited investment(s) in equity (shares) when Council wishes to invest for strategic, economic development or social reasons, such as Local Government Insurance Corp¹.

Council will approve equity investments on a case-by-case basis, if and when they arise.

¹ Council currently holds 8,290 shares in the NZ Local Government Insurance Corporation Ltd. The purpose of the entity, in which most local authorities are shareholders, is to ensure that adequate insurance arrangements are available to local authorities at the lowest possible cost. The shares are not readily transferable.

Generally such investments will be (but not limited to) Council Controlled Trading Organisations (CCTO) or Council Controlled Organisations (CCO) to further district or regional economic development. Council does not invest in offshore entities.

Council reviews performance of these investments as part of the annual planning process to ensure that stated objectives are being achieved.

Any disposition of these investments requires approval by Council. Acquisition of new equity investments requires Council approval. The proceeds from the disposition of equity investments will be taken to the Capital Projects Fund. .

All income, including dividends, from Council's equity investments is included in general revenue.

Equity investment performance is reported to the Finance and Services Committee at least annually, along with the consideration of and approval of the Statement of Intent.

5.4.1 New Zealand Local Government Funding Agency Limited

Despite anything earlier in this Policy, Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

Council's objective in making any such investment will be to:

- Obtain a return on the investment.
- Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.

As a borrower, Council's LGFA investment includes borrower notes.

5.5 Property investments

Council's overall objective is to only own property that is necessary to achieve its strategic objectives as stated in the LTP or deemed to be a core Council function. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. Council generally follows similar assessment criteria in relation to new property investments.

Council reviews the performance of its property investments at least annually and ensures that the benefits of continued ownership are consistent with its stated objectives. Council's policy is to dispose of any property that does not achieve a commercial return having regard to any restrictions on title or other requirements or needs to achieve Council objectives. All income, including rentals and ground rent from property investments is included in the consolidated revenue account. All rented or leased properties will be at an acceptable commercial rate of return so as to minimise the rating input, except where Council has identified a level of subsidy that is appropriate.

Proceeds from the disposition of property investments are used firstly in the retirement of related debt and then are credited to the Capital Projects Fund.

Council's investment in properties, other than reserves and those required for own occupation and infrastructural services, will not exceed 50% of total fixed assets.

Any purchased properties must be supported by a current registered valuation, substantiated by management including a fully worked capital expenditure analysis.

5.6 Financial investments

Objectives

Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 5.4. Credit ratings are monitored and reported at least six-monthly.

Council may invest in approved financial instruments as set out in section 6.2. These investments are aligned with Council's objective of investing in high credit quality and liquid assets. The CE approves the investment strategy within the scope and parameters of this policy and does so with input from Council's investment advisors.

Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:

- Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
- Council may choose to hold specific reserves in cash and financial investments. Interest income relating to special reserves is allocated to those accounts annually based on the opening balance.
- Internal borrowing will be used wherever possible to minimise external borrowing.
- Financial investments do not include shares/equities.
- All unsecured financial investment must be senior in ranking. Subordinated and perpetual debt instruments are not permitted.

Special funds

Liquid assets are required to be held against recorded Special Fund amounts.

Trust funds

Where Council hold funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the Trust Deed. If the Trust's Investment Policy is not specified then this Policy should apply.

5.7 Investment management and reporting procedures

Council's policy for the management and reporting of investments includes:

- The legislative necessity to maintain efficient financial systems for the recording and reporting (inter alia) of:
 - All revenues and expenditures;
 - All assets and liabilities; and
 - The treatment and application of special funds.
- Adherence to Council's financial processes and delegations to Council's staff to invest surplus short-term funds and negotiate reinvestments, subject to the provision of adequate cash resources to meet normal expected cash demands;
- Treasury reporting is completed on at least a six-monthly basis.

6 Risk recognition / identification management

The definition and recognition of liquidity, funding, investment, interest rate, counterparty credit, operational and legal risk of Council is detailed below and applies to both the Liability Management Policy and Investment Policy.

6.1 Interest rate risk on external borrowing

6.1.1 Risk recognition

Interest rate risk is the risk that funding costs (due to adverse movements in market wholesale interest rates) will materially exceed or fall short of projections included in the LTP or Annual Plan so as to adversely impact revenue projections, cost control and capital investment decisions.

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing/hedging of interest costs. Certainty around interest costs is to be achieved through the management of underlying interest rate exposures.

6.1.2 Interest rate risk control limits

Exposure to interest rate risk is managed and mitigated through the risk control limits below. Council's forecast core external debt should be within the following fixed/floating interest rate risk control limit, and will apply when forecast 12 month core debt exceeds \$10 million.

Core external debt is defined as gross external debt. When approved forecasts are changed, the amount of fixed rate protection in place may have to be adjusted to ensure compliance with the Policy minimums and maximums.

Master Fixed / Floating Risk Control Limits	
Minimum Fixed Rate	Maximum Fixed Rate
50%	95%

"Fixed Rate" is defined as an interest rate repricing date beyond 12 months forward on a continuous rolling basis.

"Floating Rate" is defined as an interest rate repricing within 12 months.

The percentages are calculated on the rolling 12 month projected core debt level calculated by management (signed off by the CE).

The fixed rate amount at any point in time should be within the following maturity bands:

Fixed Rate Maturity Limit		
Period	Minimum Hedge %	Maximum Hedge %
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	0%	60%

A fixed rate maturity position that is outside the above limits, however self corrects within 90-days is not in breach of this Policy. Maintaining a maturity profile beyond 90-days requires specific approval by Council.

- Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.
- Any interest rate swaps with a maturity beyond 10 years must be approved by Council.

- Hedging outside the above risk parameters must be approved by Council.
- At all times these instruments must be used within the context of the prudent financial objectives of Council’s treasury function.

6.2 Approved financial instruments

Approved financial instruments (which do not include shares or equities) are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities Loan stock /bond issuance <ul style="list-style-type: none"> ▪ Floating Rate Note (FRN) ▪ Fixed Rate Note (Medium Term Note/Bond) ▪ Commercial paper (CP)/Promissory notes
Financial investments – no more than 12-month term (except for LGFA borrower notes, investments linked to debt pre-funding and bank bonds)	Bank call/term deposits Bank registered certificates of deposit (RCDs) Secured/unsecured senior bank bonds for terms up to 5-years LGFA borrower notes
Interest rate risk management	Forward rate agreements (“FRAs”) on: <ul style="list-style-type: none"> ▪ Bank bills Interest rate swaps including: <ul style="list-style-type: none"> ▪ Forward start swaps. Start date <24 months, unless linked to existing maturing swaps ▪ Swap maturity extensions and shortenings Interest rate options on: <ul style="list-style-type: none"> ▪ Bank bills (purchased caps and one for one collars) ▪ Interest rate swaptions (purchased swaptions and one for one collars only)
Foreign exchange management	<ul style="list-style-type: none"> ▪ Spot foreign exchange ▪ Forward exchange contracts (including par forwards)
Carbon price risk management	<ul style="list-style-type: none"> ▪ New Zealand Units (NZUs) and Assigned Amount Units (NZAAUs) ▪ Emission Reduction Units (ERUs), Certified Emission Reduction Units (CERs), Removal Units (RMUs) – until such time as inadmissible on the NZ Emission Trading Scheme (ETS)

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved.

6.3 Liquidity risk/funding risk

6.3.1 Risk recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, short-term financial investments, loans and bank facilities. Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at acceptable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to changing market conditions.

6.3.2 Liquidity/funding risk control limits

To ensure funds are available when needed Council ensures that:

- There is sufficient available operating cash flow, liquid investments (cash/cash equivalents) and unused committed bank facilities to meet cash flow requirements between rates instalments as determined by the Finance Team.
- For liquidity purposes Council maintains the following;
 - External term debt plus committed bank facilities, plus unencumbered cash/cash equivalents to existing external debt of at least 110%.
 - Unencumbered liquid financial investments (cash/cash equivalents) used for liquidity management purposes are to not have a maturity term greater than 30-days.
- Council has the ability to pre-fund up to 12 months forecast debt requirements including re-financings.
- The CE has the discretionary authority to re-finance existing external debt.
- Council will only borrow from strongly rated banks with a minimum long-term credit rating of at least "A+" (S&P, or equivalent Fitch or Moody's rating).
- The maturity profile of the total committed funding in respect to all external term debt and committed bank facilities is to be controlled by the following system. The limits will apply when core debt exceeds \$10 million:

Period	Minimum %	Maximum %
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	0%	60%

A funding maturity profile that is outside the above limits, however self corrects within 90-days is not in breach of this Policy. Maintaining a maturity profile beyond 90-days requires specific approval by Council.

6.4 Counterparty credit risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by the Finance and Services Committee at least six-monthly. Treasury related transactions would only be entered into with approved counterparties.

Counterparties and limits are only approved on the basis of the following Standard & Poor's (S&P, or equivalent Fitch or Moody's rating) long and short-term credit ratings matrix. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

Counterparty /Issuer	Minimum S&P long term / short term credit rating	Investments maximum per counterparty (\$m)	Risk management instruments maximum per counterparty (\$m)	Total maximum per counterparty (\$m)
NZ Government	N/A	Unlimited	None	Unlimited
Local Government Funding Agency (LGFA)	A+/A-1	10.0	None	10.0
NZ Registered Bank	A+ /A-1	8.0 (with the exception of Council's transactional bank which may exceed this for up to 5 working days)	5.0	13.0

In determining the usage of the above gross limits, the following product weightings will be used:

- Investments (e.g. Bank Deposits) – Transaction Principal × Weighting 100% (unless a legal right of set-off exists).
- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional × Maturity (years) × 3%.
- Foreign Exchange / Carbon Credit - Transactional face value amount x (the square root of the Maturity (years) x 15%).

Credit ratings should be reviewed by the Finance Team on an ongoing basis and in the event of material credit downgrades should be immediately reported to the CE and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

Risk management

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of approved counterparties as possible. The approval process must take into account the liquidity of the market and prevailing market conditions the instrument is traded in and repriced from.

6.5 Foreign currency

Council has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated services, plant and equipment.

All individual commitments over NZ\$100,000 equivalent are hedged using approved foreign exchange instruments, once expenditure is approved, legal commitment occurs and the purchase order is placed, exact timing, currency type and amount are known. Only approved foreign exchange instruments are used.

Council shall not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency. Council does not hold investments denominated in foreign currency.

6.6 Emissions Trading Scheme (ETS)

The objective of the ETS carbon credit policy is to minimise the financial impact of carbon price movements on Council's forward carbon liability. The objective requires balancing Council's need for price stability with the benefit of realising market opportunities to reduce costs as they arise. ETS is risk managed on a case-by-case basis, with any strategy approved by the CE.

6.7 Operational risk

Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls. Detailed controls and procedures are agreed between the CE and CFO on an annual basis.

6.8 Legal risk

Legal risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation.

Council will seek to minimise this risk by adopting Policy regarding:

- The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties.
- The matching of third party confirmations and the immediate follow-up of anomalies.
- The use of expert advice.

6.8.1 Agreements

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council. All ISDA Master Agreements for financial instruments and carbon units must be signed under seal by Council.

6.8.2 Financial covenants and other obligations

Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements. Council must comply with all obligations and reporting requirements under existing bank funding facilities, LGFA, Trustee and legislative requirements.

7 Measuring treasury performance

In order to determine the success of Council's treasury management function, the following benchmarks and performance measures have been prescribed.

Those performance measures that provide a direct measure of the performance of treasury staff are to be reported to the Finance and Services Committee on, at least, a six-monthly basis.

Management	Performance
Operational performance	<ul style="list-style-type: none">All Policy limits must be complied with, including (but not limited to) counterparty credit limits, control limits and exposure limits.All treasury deadlines are to be met, including reporting deadlines.
Management of debt and interest rate risk (borrowing costs)	<ul style="list-style-type: none">The actual borrowing cost (taking into consideration any costs/benefits of entering into interest rate management transactions) should be below the budgeted YTD/annual interest cost amount.
Treasury investment returns	<ul style="list-style-type: none">The actual investment income should be above the budgeted YTD/annual interest income amount.

8 Cash management

The Finance Team has responsibility to manage the day-to-day cash and short-term cash management activities of Council. The Finance Team prepares rolling cash flow and debt forecasts to manage Council's cash management and borrowing requirements. The overdraft facility is utilised as little as practical with any operational surpluses prudently invested.

9 Reporting

When budgeting interest costs and investment returns, the actual physical position of existing loans, investments, and interest rate instruments must be taken into account.

9.1 Treasury reporting

Regular treasury reporting on at least a six monthly is provided to the Finance & Services Committee.

9.2 Accounting treatment of financial instruments

Council uses financial arrangements ("derivatives") for the primary purpose of reducing its financial risk to fluctuations in interest rates.

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Statement of Comprehensive Revenue and Expense unless derivatives are designated in an effective hedge relationship.

Council's principal objective is to manage Council's interest rate risks within approved limits and chooses not to hedge account. Council accepts that the marked-to-market gains and losses on the revaluation of derivatives can create potential volatility in Council's financial accounts.

The Finance Team is responsible for advising the CE of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of financial arrangements.

All derivative instruments must be revalued (marked-to-market) at least six-monthly for reporting purposes.

10 Policy review

The Policy is to be formally reviewed on a triennial basis in conjunction with the LTP.

The CFO has the responsibility to prepare the annual review report (following the preparation of annual financial statements) that is presented to the CE. The report will include:

- Recommendation as to changes, deletions and additions to the Policy.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of Policy and one-off approvals outside Policy.

Council receives the report, approves Policy changes and/or rejects recommendations for Policy changes. The Policy review should be completed and presented to the Council, through the Finance and Services Committee within five months of the financial year-end.

11 Appendix 1: Glossary of Terms

BKBM - The bank bill mid market settlement rate, as determined at 10.45 am each business day on Reuters page BKBM. This is the standard rate for the settlement of interest rate swaps, forward rate agreements and interest rate floors, caps and collars.

Bank Bill - A “bill of exchange” security document issued by a corporate borrower, but guaranteed by a bank, who then in turn sells the security into the bank/investor market to re-liquify itself with cash. Normally for terms of 30, 60, 90 or 180 days.

Benchmark -An agreed market related yardstick that investor returns, funding costs or average exchange rate achieved are compared against for performance measurement purposes.

Bond - The security instrument that is issued by a borrower whereby they promise to repay the principal and interest on the due dates. A bond’s interest rate is always fixed.

Borrower Notes. On occasion when Council borrows from the LGFA it will be required to contribute part of that borrowing back as equity in the form of “Borrower Notes”. A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance the Council) at a future date (in this instance upon the maturity of the loan). An interest return is paid on the Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

Cap - A series or string of interest rate put options whereby a borrower can have protection against rising short term interest rates, but participate in the lower rates if market rates remain below the “capped rate.” A cap is normally for more than one 90-day funding period. Also called a “ceiling”.

Certificate of Deposit “CD” - A debt instrument (normally short term) issued by a bank to borrow funds from other banks/investors.

Closing-Out - The cancellation/termination of a financial instrument or contract before its maturity date, resulting in a realised gain/loss as the current market rate differs from the contract rate.

Collar - Two option contracts linked together into the one transaction or contract. A borrower’s collar is normally a “cap” above current market rates and a “floor” below current rates. Over the term of the collar contract, if rates go above the cap the borrower is protected and pays an interest cost no more than the cap rate. Likewise, if market rates fall below the floor, the borrower pays the floor rate and does not participate in the lower market rates. Also called a “cylinder”.

Commercial Paper - The debt security instrument issued by a prime (and normally credit-rated) borrower to raise short-term funds (30, 60, 90 or 180 days). Also called “one-name paper” and “promissory notes” issued by competitive public tender to investors, or by private treaty to one investor.

Counterparty - The contracting party to a financial transaction or financial instrument.

Covenants - Special conditions and financial ratios required to be met or maintained by a borrower for a lender under the legal security documents.

Cover - A term used to describe any action of entering financial instruments that reduces risk or puts protection in place against adverse future price movements.

Credit Rating – The credit rating of a Corporation/Council is a financial indicator to potential investors of debt securities such as bonds. These are assigned by credit rating agencies such as Standard & Poor's, Moody's or Fitch Ratings and have letter designations such as AAA, B, CC. A poor credit rating indicates a high risk of defaulting, therefore constitutes a higher level of interest rates.

Credit Risk - The risk that the other party to a financial transaction (bank deposit, interest rate swap contract) will default on or before the maturity date and not be able to fulfil their contractual obligations.

Credit Spread - The interest rate difference (expressed as basis points) between two types of debt securities. The credit spread being a reflection of the difference in credit quality, size and liquidity between the two securities e.g. five year corporate bonds may be at a credit spread of 200 basis points above Government bonds.

Debenture - A debt instrument similar to a bond whereby a borrower (normally a finance company) borrows for a longer term at a fixed rate. Also a legal instrument provided as security to a lender.

Derivative(s) - A “paper” contract whose value depends on the value of some “underlying” asset e.g. share market stocks, bank bills, bonds or foreign currency. Also called a “synthetic”. The value of the assets will change as its market price changes, the derivative instrument will correspondingly change its value.

Exercise Date/Price - The day and fixed price that an option contract is enforced/actioned or “exercised” because it is in the interests of one of the parties to the contract to do so.

Fair Value - The current market value of an off-balance sheet financial instrument should it be sold or closed-out on the market rates ruling at the balance date.

Fixed Rate - The interest rate on a debt of financial instrument is fixed and does not change from the commencement date to the maturity date.

Floating Rate - The interest rate on a loan or debt instrument is re-set at the ruling market interest rates on the maturity date of the stipulated funding period (usually 90-days).

Floor - The opposite of a “cap”. An investor will buy a floor, or a series/string of call options (the right to buy) to protect against falling interest rates, but be able to invest at higher interest rates if rates move upwards.

Forward Exchange Contract - A contract to buy and sell one currency against another at a fixed price for delivery at some specified future date.

Forward Rate Agreement - A contract (“FRA”) whereby a borrower or investor in Bank Bills agrees to borrow or invest for an agreed term (normally 90-days) at a fixed rate at some specified future date. A FRA is an “over-the-counter” contract as the amount and maturity date is tailored by the bank to the specific requirements of the borrower/investor.

Forward Starting Swap - An interest rate swap contract that commences at a future specified date. The rate for the forward starting swap will differ from the current market rate for swaps by the shape and slope of the yield curve.

Funding Risk - The risk that a borrower cannot re-finance its debt at equal or better terms at some date in the future, in terms of lending margin, bank fees and funding time commitment. Funding risk may increase due the company’s own credit worthiness, industry trends or banking market conditions.

Guaranteeing borrower LGFA – a Council borrower that guarantees the interest and loan principal obligations of other Councils borrowing from the LGFA and the LGFA itself.

Hedging - The action of reducing the likelihood of financial loss by entering forward and derivative contracts that neutralise the price risk on underlying financial exposures or risks. The gain or loss due to future price movements on the underlying exposure is offset by the equal and opposite loss and gain on the hedge instrument.

ISDA - International Security Dealers Association: a governing body that determines legal documentation/standards for over-the-counter swaps/options/FRAs and other derivative instruments for interest rates, currencies, commodities etc. Corporate users of such instruments sign an ISDA Master Agreement with banking counterparties that covers all transactions.

Interest Rate Collar Strategy - The combined purchase (sale) of a floor or cap with the sale (purchase) of another floor or cap. This can be a zero premium cost strategy. See the interest rate option for further details. This product can be used by both an investor and a borrower. From a borrower's perspective, this product is transacted to provide a limited amount of participation in a downward movement in interest rates to an agreed strike rate. If the interest rate continues to move downwards, Council cannot participate in any movement beyond the strike rate. If interest rates move in an unfavourable direction (upwards) then the predetermined strike rate provides certainty through a known worst case rate. For an investor, the zero cost collar allows some participation in an increase in rates and provides a worst case rate if interest rates decline. This product outperforms the forward rate agreement if rates fall but under performs if rates rise. This product would be used by a borrower, for known exposures, where the interest rate is expected to decline moderately from current levels.

Interest Rate Options - The purchase of an interest rate option gives the holder (in return for the payment of a premium) the right, but not the obligation, to invest (described as a floor) or borrow (described as a cap) at a future date for a specified period. Council and the counterparty agree to a notional future principal amount, the future interest rate, the benchmark dates and the benchmark rate (usually BKBM). Interest rate option products include caps, floors, swaptions and bond options.

From a borrower's perspective, these products offer Council maximum flexibility, protecting Council from a rise in rates but allowing full participation in a fall in rates. When used by an investor, this product protects Council from a decline in rates and allows full participation in rising rates.

This product is used either where there is some uncertainty in the underlying debt exposure or the outlook for interest rates is favourable but the policy requires some form of protection.

Interest Rate Swaps - A binding, paper contract where one party exchanges, or swaps, its interest payment obligations from fixed to floating basis, or floating to fixed basis. The interest payments and receipts under the swap contract being offsetting, equal and opposite to the underlying physical debt.

Liability Management - The policy, strategy and process of actively managing a portfolio of debt.

Limit(s) - The maximum or minimum amount or percentage a price or exposure may move to before some action or limitation is instigated. Also called "risk control limits".

Liquidity Risk - The risk that a company cannot obtain cash/funds from liquid resources or bank facilities to meet foreseen and unforeseen cash requirements. The management of liquidity risk involves working capital management and external bank/credit facilities.

LGFA Bonds - A medium term note (MTN) where a fixed coupon payment is made semi-annually to the LGFA by the Council borrower over the term of the bond, or a floating rate notes (FRN) where interest is paid quarterly at a margin over the bank bill bid rate over the term of the bond.

LGFA guarantee – Provided by a guaranteeing borrower, Council guarantees the interest and principal loan obligations of other Councils that are borrowing from the LGFA and the LGFA itself. The guaranteeing amount is to proportionate to Council's rate revenue relative to the rate revenue of all other LGFA borrowing guaranteeing Councils.

Marked-to-Market - Financial instruments and forward contracts are revalued at current market rates, producing an unrealised gain or loss compared to the book or carrying value.

Margin - The lending bank or institution's interest margin added to the market base rate, normally expressed as a number of basis points.

Medium Term Notes (MTN) - A continuous program whereby a prime corporate borrower has issuance documentation permanently in place and can issue fixed rate bonds at short notice under standard terms.

Non - guaranteeing borrower LGFA – a Council borrower that does not guarantee the interest and loan principal obligations of other Councils borrowing from the LGFA or the LGFA itself. The Council borrower has no more than \$20 million of borrowing from the LGFA.

Revaluation - The re-stating of financial instruments and option/forward contracts at current market values, different from historical book or carrying values. If the contracts were sold/bought back (closed-out) with the counterparty at current market rates, a realised gain or loss is made. A revaluation merely brings the contract/instrument to current market value.

Roll-over - The maturity date for a funding period, where a new interest rate is reset and the debt re-advanced for another funding period.

Spot Rate - The current market rate for currencies, interest rates for immediate delivery/settlement, and normally two business days after the transaction is agreed.

Subordinated debt – Upon liquidation of a company, subordinated debt holders rank behind other senior unsecured and secured creditors.

Strike Price -The rate or price that is selected and agreed as the rate at which an option is exercised.

Swaption - An option on an interest rate swap that if exercised the swap contract is written between the parties. The option is priced and premium paid similar to bank bill and bond interest rate options.

Swaption Collar – The simultaneous position of entering into 2 option contracts on 2 interest rate swaps linked together into one transaction. A swaption collar performs similarly to a 'collar' where from a borrower's perspective a top-side position above current market rates and a bottom-side position below current market rates are entered into. On maturity of the options and depending on current interest rates relative to the strike levels on the swaps will determine if either swap is transacted.

Treasury - Generic term to describe the activities of the financial function within a company that is responsible for managing the cash resources, debt, foreign exchange risk, and sometimes the commodity price and energy price risk.

Treasury Bill - A short term (<12 months) financing instrument/security issued by a Government as part of its debt funding program.

Volatility - The degree of movement or fluctuation (expressed as a percentage) of an asset, currency, commodity or financial instrument price over time. The percentage is calculated using mean and standard deviation mathematical techniques.

Yield - Interest rate, always expressed as a percentage.

Yield Curve - The plotting of market interest rate levels from short term (90-days) to long term on a graph i.e. the difference in market interest rates from one term (maturity) to another.

Central Hawke's Bay District Council	POLICY MANUAL	
	Document #	7.20
<i>SPECIAL FUND ACCOUNTS POLICY</i>	Approved by:	Council
	Adoption Date:	14-12-2017
	Last Amended:	14-12-2017
	Review Date:	December 2020
	Page:	Page 1 of 3

That Council operate Special Fund Accounts in terms of this Policy.

All Special Fund Accounts shall be pooled for the purpose of accounting and investment.

That investments made from the Special Fund Account Pool be made in accordance with Council's Investment Policy.

That at no time will any Special Fund Account be taken into a debit balance position.

That interest payments, capital gains or losses be credited/charged on a pro-rata basis to all Special Fund Accounts within the pool.

Unless otherwise stated, only the interest earned on each fund shall be available to be spent thereby preserving the individual fund amounts.

DESCRIPTION OF PURPOSES STATEMENT

Special Funds are those funds, or reserves, which Council has established by resolution, the terms of which restricts the use of the funds. Each fund has been set up as a separate account to maintain a degree of independence from Council's general funds. All funds are invested as part of a larger pool of funds and are not available for any other purpose.

ELECTION AND BY-ELECTION FUNDING RESERVE

To provide for the smoothing of election expenses by the annual transfer of funds to the account.

MAYOR'S FUND

To provide for payments to worthy individuals or groups at the sole discretion of the Mayor.

Income for this fund comes from public donations, and if required, an allocation of interest from Special Fund Investments.

The balance of the Fund will be maintained at a minimum of \$5,000 as at each 30th June.

The Mayor will report to Council on a 6 monthly basis on expenditure from this Fund.

RURAL FIRES RESERVE

To provide funds for the non-recoverable costs incurred by Council in fighting rural fires.

The value of the fund should be preserved by transfers from the Fire Control Account so that a level of \$25,000 is maintained and annually adjusted for inflation using the cost of construction index.

ESPLANADE RESERVE FUND

To provide immediate finance to; purchase land, pay legal costs, pay survey costs or pay acquisition costs associated with the purchase or access to Esplanade Reserve land as and when it becomes available.

Withdrawals from this fund will only be made when the purchase or access to Esplanade Reserve land has been approved by Council.

TE AUTE DRAIN CHANNEL CLEARING RESERVE

To provide funds for the programmed clearing of channels and major maintenance of the system. Funds may be provided annually from the Te Aute Drainage Rate for the maintenance of this account.

RETIREMENT HOUSING DEPRECIATION RESERVE ACCOUNT

To provide for extensions, major upgrading, major maintenance or capital purchases whenever such is necessary in the provision of Retirement Housing or other social housing facilities within the district. Funds will be provided annually from the Retirement Housing rentals for the maintenance of this account.

The fund may also be used at the discretion of Council for any reviews undertaken of Retirement Housing and consideration of future options with regards to social housing generally in Central Hawke's Bay.

ADVERSE EVENTS CONTINGENCY

To provide funds to assist with the repairs to or to replace damaged Council assets in the event of an unforeseen, major, short duration, natural event. Adverse events include those that would not normally be covered by operational expenditure and those not covered by insurance. Each adverse event will be assessed on a case by case basis. In the case of an adverse roading event the New Zealand Transport Agency definition of an emergency will be used.

The value of the fund should be preserved by transfers from the appropriate operational rate so that a level of \$500,000 is maintained and annually adjusted for inflation using the cost of construction index.

CATASTROPHIC EVENTS FUND

To provide funds for the financial protection of the district in the event of an unforeseen catastrophic natural event.

This event would be such that substantial damage occurred to the vital infrastructure of the district.

Each catastrophic event will be assessed on a case by case basis.

There are three ways these funds may be used.

1. The capital sum used to repair damage to infrastructure assets.
2. The sum used to provide the "first cover" of an insurance policy for the district's infrastructural assets.
3. The sum used as part or all of Council's contribution to a proposed co-operative national emergency fund.

The value of this fund should be preserved by transfers from the appropriate operational rate so that a level of \$2.0 million is maintained and annually adjusted for inflation using the cost of construction index.

INFRASTRUCTURE PROTECTION RESERVE

To provide funds for the financial protection of the district in the event of an unforeseen catastrophic natural event on infrastructure assets.

The fund may be used to replace/repair damage to assets or infrastructure caused by a natural disaster/event.

ARAMOANA WARD DISBURSEMENT FUND

To provide funds for the provision or maintenance of recreational, cultural or infrastructural assets within the Aramoana Ward.

RUAHINE WARD HALLS MAINTENANCE RESERVE

To provide funds for the larger maintenance items of the Ward Halls in the Ruahine Ward to enable them to operate without large fluctuations in rate requirements due to major maintenance.

RUAHINE WARD DISBURSEMENT RESERVE ACCOUNT

To provide funds for the provision or maintenance of recreational, cultural or infrastructural assets within the Ruahine Ward.

RUATANIWA WARD DISBURSEMENT RESERVE ACCOUNT

To provide funds for the provision or maintenance of recreational, cultural or infrastructural assets within the Ruataniwha Ward.

CAPITAL PROJECTS FUND

To provide funds for the purchase or construction of recreational, cultural or infrastructural assets anywhere in the district.

The funds will be used to provide substantial assistance for the provision of new facilities.

The net proceeds from the sale of Council owned Infrastructure, Land and Buildings, shall be credited to this Fund.

WAIPAWA BUILDING SOCIETY SCHOLARSHIP TRUST FUND

A fund held in trust for the trustees of the scholarship to enable them to allocate grants to assist with further education for selected residents of Central Hawke's Bay district who are intending to attend, or are attending, a course of tertiary education.

ERIC TATE SCHOLARSHIP TRUST FUND

A fund held in trust for the trustees of the scholarship to enable them to allocate grants to assist with further education for selected CHB College students who normally reside in the district served by the former Waipawa District High School.

From: [redacted]
To: [Leigh Collecutt](#)
Cc: [redacted]
Subject: FW: Re: Annual Plan 2019/2020
Date: Thursday, 27 June 2019 1:59:06 PM
Attachments: [image939862.png](#)
[image925512.png](#)
[image782465.png](#)
[image921095.png](#)
[image053554.png](#)
[image819224.png](#)
[image698429.png](#)
[image105503.png](#)
[image535208.png](#)



[redacted]
Information Services Officer
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210
06 857 8060

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-----Original Message-----

From: Angus Mabin [redacted]
Sent: March 15, 2019 9:46 AM
To: Monique Davidson [mailto:xxxxxxxxxxxxxxxx@xxxxx.xxxx.xx]
Subject: Re: Annual Plan 2019/2020

Sorry, slow to get back on this. What a great document. Everything dove tails into to each other nicely. We are all joined at the hip whether we like it or not so it is implicit that we work together. Wouldn't that be a great outcome to have CHB leading the way for NZ in terms of an integrated environmental plan.
When you have a moment could you please ring.
cheers
Angus

On Wed, Mar 13, 2019 at 6:44 AM Monique Davidson <xxxxxxxxxxxxxxxx@xxxxx.xxxx.xx> wrote:

Good Morning Hugh and Angus

-

Please note that the full information required for Annual Plan 2019/2020 consultation is now live on the website. Of specific interest to you will be the final Discussion Paper related to the proposal around Water Holdings CHB and the Consultation Document.

-

<https://www.chbdc.govt.nz/our-council/consultations/>

-

Thanks

-

Monique

CHBDC Website



Monique Davidson
Chief Executive
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210

06 857 8060
027 601 1711



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From: [REDACTED]
To: [Leigh Collecutt](#)
Cc: [REDACTED]
Subject: FW: meeting tomorrow.
Date: Thursday, 27 June 2019 1:59:26 PM
Attachments: [image427662.png](#)
[image792939.png](#)
[image276076.png](#)
[image270598.png](#)
[image688446.png](#)



[REDACTED]
Information Services Officer
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210
06 857 8060

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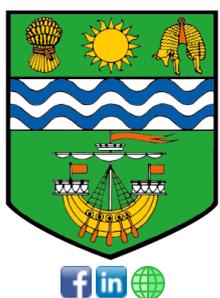


-----Original Message-----

From: Angus Mabin [REDACTED]
Sent: April 8, 2019 4:34 PM
To: Monique Davidson [mailto:xxxxxxxx.xxxxxxxx@xxxxx.xxxx.xx]
Subject: meeting tomorrow.

I will also be bringing Hugh along to contribute.
See you midday.
Angus

From: [redacted]
To: Leigh Collecutt
Cc: [redacted]
Subject: FW: Re: FW: Questions from [redacted]
Date: Thursday, 27 June 2019 2:00:19 PM
Attachments: [image355149.png](#)
[image302084.png](#)
[image634994.png](#)
[image155291.png](#)
[image845065.png](#)
[image377038.png](#)
[image667044.png](#)
[image001.png](#)
[image002.png](#)
[image458161.png](#)
[image247439.png](#)
[image615174.png](#)
[image976238.png](#)



[redacted]
Information Services Officer
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210
06 857 8060

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-----Original Message-----

From: Angus Mabin [redacted]
Sent: April 16, 2019 5:55 PM
To: Monique Davidson [mailto:xxxxxxx.xxxxxxx@xxxxx.xxxx.xx]
Subject: Re: FW: Questions from [redacted]

Monique,
Mike Smith.
A Degree in Engineering (don't know where from or whether Hons or Masters, but can find out). More importantly 25 years experience globally with Shell on big infrastructure projects.
In our view he is excellently qualified.

I have already promptly given [redacted] IP information on a USB that she has requested, spent 30mins of a Sunday talking to her about CHBWH and said ring me any time she has a need.
Angus

On Tue, Apr 16, 2019 at 8:15 AM Monique Davidson <xxxxxxx.xxxxxxx@xxxxx.xxxx.xx> wrote:

Hi Angus
[Are you able to give me a response to the second question?](#)
[Thanks](#)
[Monique](#)

Monique Davidson
Chief Executive
Central Hawke's Bay District Council
PO Box 127

CHBDC Website



28 - 32 Ruataniwha Street
Waipawa 4210

06 857 8060
027 601 1711



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From: Bronda Smith <xxxxxx.xxxxx@xxxxx.xxxx.x>
Sent: 15 April 2019 05:11 PM
To: Monique Davidson <xxxxxxxxxxxxxxxx@xxxxx.xxxx.x>
Subject: Questions from [redacted]

-
Hi Monique

-
We are still yet to answer the below questions from [redacted]. Do you know the answers?

-
Who is on the Community Environmental and Sustainability Reference Group?
Which people are involved in doing the review/feasibility of the RWSS IP? What are their qualifications?

-
Cheers



Bronda Smith
Group Manager - Corporate Support and Services
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210

06 857 8060
027 489 2494



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DELIBERATIONS - ANNUAL PLAN 2019/20 - #THE EVEN BIGGER WATER STORY

File Number: COU1-1400
Author: Monique Davidson, Chief Executive
Authoriser: Monique Davidson, Chief Executive
Attachments: Nil

PURPOSE

The purpose of this report is to present to Council the submissions received on the Annual Plan consultation in relation to whether the Council should provide a suspensory loan to Water Holdings CHB for the purpose of exploring and assessing workable options to achieve water security.

RECOMMENDATION

That, having considered all matters raised in the report that Council deliberate to determine their preferred option.

THE EVEN BIGGER WATER STORY**Submissions:**

3 Lorraine Keighley, 4 Kevin Davidson, 5 Joan Chatfield, 6 Michael Smith, 7 Gregory Kent, 8 Jennifer Woodman, 9 David Lewis, 11 Peter Watson, 17 Bruce Stern, 18 Tony Cunningham, 19 Andrew Renton-Green, 20 Sarah von Dadelszen, 21 George Harper, 24 Martin Lord, 25 Nicky Harper, 29 Graham Palmer, 30 Myles Henderson, 31 Duncan Smith, 32 Mike Petersen, 33 Angus Mabin, 34 Reidun Marshall, 35 Duncan Holden, 36 Sheryl Bayliss, 37 Lorraine Horder, 38 Sharon Ritchie, 39 Kevin Davidson, 40 Hay Rose, 41 Tony Murphy, 42 Robin Horder, 43 Jamie Gunson, 45 Alan Neckelson, 47 CHB Forest and Bird Society, 48 Angus Robson, 49 Robby Smith, 51 David Bishop, 52 Alan and Delphine Delugar, 53 Peter Meredith, 54 Arthur Rowlands, 55 Louise Phillips, 57 Liz and Ian Bayliss, 58 Dan Elderkamp, 59 Clint Deckard, 60 David and Kerry Mackintosh, 61 NZ Forest and Bird, 62 Victoria Bloomer, 63 Megan Fitter, 64 Murray Rosser, 65 Dean Hyde, 66 Greenpeace, 67 Murray Howarth, 68 Bruce Anderson, 69 William Stevenson, 70 Nicola Hobson, 71 Gill Tracy, 72 Adrienne Tully, 74 Diane Seager, 75 Jim and Yvonne Macaulay, 76 Tony Ward, 77 Catherine Pedersen, 78 Andrew Robb, 79 Sharleen Baird, 80 Murray Cammock, 81 Rawiri Barlow Johnston, 82 Charles Nairn, 83 George T Konia, 84 John Jakes, 85 Ray Freemantle, 86 Harold Petherick, 87 Terry Lamont, 88 Justin Courtney, 89 Peter Charlton-Jones, 90 Fiona Harty, 91 Neil Bayliss, 92 Rachel Hornblow, 94 Vera Smith, 95 Hugh Ritchie, 96 R Pickering, 97 L Guy and R Bell, Denise Cox, Gerard Pain, 101 Trevor Le Lievre, 102 Larry Dallimore, 103 Gren Christie, 104 Helen Walker, 105 Lon Anderson, 107 Ian Walker, 109 Nicolette Brasell, 110 Anne Wallace, 115 Dawn Le Lievre, 116 Ali Schaper, 117 Peter Kittow, 118 Fred Nichol, 119 Bruce Stephenson, 120 Di Murphy, 121 Maureen Clegg

Late submissions: 111 Richard Thomas, 112 Chris Davis, 125 Genne Rapaea, 128 Sam and Claire Bradley, 130 Sam and Megan Meadows

Summary of Submissions:

Whether or not Council should provide a suspensory loan of \$250,000 to Water Holdings CHB was one of the key topics council sought public feedback on as part of the Annual Plan 2019/20 process. In total Council received 105 submissions on this topic.

Introduction

Water storage has been a focus of much discussion in Central Hawke's Bay for several years now.

We now need to invest our energy and resources into finding water security solutions which seek to balance the impact we have on the Tukituki catchment, with security of water not just for social and economic reasons, but with the health and sustainability of the river and aquifer at the centre of our decisions.

Water security presents significant challenges for Central Hawke's Bay and the wider Hawke's Bay region. If sustainable solutions are navigated it will afford the opportunity for businesses to return to or explore value adding opportunities for a Central Hawke's Bay of the future.

The reality is though that Water Storage alone is not the silver bullet that will resolve the challenges that Central Hawke's Bay is facing. Water Storage is one part of a wider solutions package for water security in Central Hawke's Bay.

As part of the Draft Annual Plan 2019/20 Central Hawke's Bay District Council sought feedback from the community on the proposition that a \$250,000.00 suspensory loan be provided to Water Holdings CHB Limited.

The purpose of this report is to summarise the submissions sought from the community through the special consultative process, and to provide Council options on how they might proceed.

What was the proposal?

Council proposed to allocate \$250,000 from the Rural Ward Funds to work specifically with Water Holdings CHB Limited and other key stakeholders to determine feasible water storage options for Central Hawke's Bay. Given the high public interest that water storage to date has received, Council chose to consult with the public on their thoughts about providing the suspensory loan.

Water Holdings CHB Ltd is a Limited Liability company set up to purchase the Intellectual Property (IP) for the Ruataniwha Water Storage Scheme from Hawke's Bay Regional Council Investment Company.

The entity, while a private business, promotes itself as being not for profit from the assets which have been purchased.

A suspensory loan is a non-repayable loan, which is dispensed over time or upon the completion of a set of agreed outputs. A suspensory loan normally is not repayable, however there can be mechanisms whereby repayment can be required. In the instance of the investment being proposed, this could include Water Holdings CHB Ltd commercialisation of the IP or the sale, divestment or transfer of IP or the company who holds the IP.

This project sought to support Water Holdings CHB Ltd and key stakeholders to further assess the IP of the Ruataniwha Water Storage Scheme to explore and produce workable options to achieve water security for inter-generational economic, social and environmental resilience of Central Hawke's Bay.

The proposed money would support Water Holdings CHB Ltd to investigate existing IP and work in a collaborative way with Te Taiwhenua o Tamatea, Hawke's Bay Regional Council and other key stakeholders to determine a solutions package for sustainable and reliable summer water supply both in Central Hawke's Bay Ruataniwha Plains and the lower Tukituki catchment.

What did our community say?

45 submitters supported Council providing the suspensory loan to Water Holdings CHB. Some of the key matters raised by submitters in support of this option included:

- That Central Hawkes Bay is at risk of costing many jobs if no adequate water storage solution is found
- The previous attempt at looking at a water storage solution had the wrong ownership structure
- Water is necessary for long term sustainability for the future of Central Hawke's Bay's future economic and population growth
- There would be considerable benefit to the entire community if an environmentally acceptable but commercially viable solution can be found.
- Ratepayers will benefit from the Council investing in a lasting solution, especially given the water restrictions currently in place.
- That a low level dam would likely be all that was required and if the concept were feasible that the loan would be supported
- That a large proportion of winter and spring rainfall in the catchment ends up in the sea so to dam water courses would be sensible
- That to delay implementation of a solution will stifle growth and enterprise in the district
- That although the submitter had no issue with the suspensory loan, that they question the point of the proposal, given the legalities of swapping DOC land for the main dam. The submitter questioned whether a smaller dam would have any affect during low rainfall.
- That there is no easy solution to water shortages
- Storage of water would provide water to the growing towns and allow development and diversified crops on the Ruataniwha Plain
- That the proposal would allow irrigators to move away from ground water use and combined with possible flushing could restore the Tukituki River.
- That Council should be encouraging the public towards water storage in Central Hawke's Bay
- The economic and social wellbeing of the district depends on a thriving rural economy
- Water security is vital in ensuring that Central Hawke's Bay can withstand the challenges of climate change in the future
- The opportunity to take surplus water for storage needs to be explored to enable innovative crop opportunities
- That we need an overarching look into the best solution for water storage, allocation and distribution in the district to meet everyone's needs
- That plenty of countries have no water, but we are only short in the summer months so need to find a way to manage how to have a supply year round
- Restriction through the Regional Council's Plan Change 6 restricts a large amount of water that has not been restricted previously

- That this is a good opportunity for the district now that the ownership is in Central Hawke's Bay
- That this is a no brainer for the future prosperity of the community
- Security of water would enable a mosaic of land uses increasing economic resilience for the region
- The future for Central Hawke's Bay development lies in land use change driven by water availability
- That this is a conflict of interest for the council to be involved in as a regulator and funder
- That although this is supported, that the submitters questions why it is coming from the Rural Ward Fund
- That checks and balances will need to be done by the Council to ensure the loan is a sound investment
- That the proposal is supported, but with reservations

59 submitters opposed Council providing the suspensory loan to Water Holdings CHB. Some of the key matters raised by submitters in support of this option included:

- That although there is an understanding of the need for a secure water supply, that the investment does not change the previous decisions made, where DOC lands can't be flooded and a land swap is not a viable option.
- That it would be preferable to revise existing water resource consents for pastoral users
- Taking water out of the water table would mean it was not available for forests
- That the Council should not give money to a private company without any accountability to the Council
- That the Makaroro River is unsuitable for a dam for a number of reasons, and that we should head towards using the land in a way that requires less water.
- That ratepayers have already contributed enough to a water storage solution
- That there is no security offered by the recipients to back the loan
- That land owners need to plan and fund their own water storage and supply
- That it would be wise to develop ways to use land in a manner that requires less water to be sustainable
- That in order to pay for the scheme, users must increase production, further polluting aquifers and waterways
- That there is a lack of transparency and that there has not been any detail on how the money would be spent
- That although the Council says that Water Storage is critical for the future security of water in CHB, it doesn't seem to have explored any other options to ensure adequate quantity and quality for community users year round
- That the Council has said there will be strict criteria but have not elaborated on what these are
- That there is a lack of clarity about what the Rural Ward Fund would otherwise be for and that if it is available to use that this should be used to encourage water conservation and to encourage primary producers to improve the efficiency of their water use
- That the amount of water used for irrigation is disproportionately higher than water used for drinking
- That ratepayer money should be spent on ensuring water is used sustainably

- That there is concern about the suspensory status of the loan and that if the IP is sold by Water Holdings CHB, the loan should be repaid.
- That given the significant investment made by the regional council on a solution, that CHBDC and Water Holdings CHB would be unlikely to make it a reality
- The loan exposes ratepayers to a high risk, through imprudent use of public funds
- That the loan would contradict the Council's Treasury Management Policy which outline that investments should be low risk and that Water Holdings CHB does not have a credit rating.
- That Council is not required to supply water to rural areas for irrigation. Most irrigation schemes are owned by famers and very few, if any, Councils help fund them.
- That Council will not have the resources to set up the loan and actively manage the conditions of it.
- That there are a number of conflicting statements that have been released including the fact that the Ruataniwha Water Storage Scheme is not being revisited, despite it being the IP from the scheme which is being reviewed.
- That a proposal to build a dam would be a contradiction to the proposed Environmental and Sustainability Strategy and the HB Biodiversity Strategy and Action Plan.
- That it would be a terrible catastrophe to cause destruction of our natural environment
- That Council has previously voted not to invest in the Ruataniwha Water Storage Scheme
- That the Council would not get Provincial Growth Funding for a mega dam
- That Water Holdings CHB Limited should find the money elsewhere
- That there are alternative methods for farmers and growers to farm sustainably so as not to degrade the environment
- That if funding is going to benefit everyone in the district, why is it just being taken from the rural fund and not an urban equivalent fund?
- That there would be probable poor economic and environmental outcomes if the project should proceed
- That the likely downstream impacts would be significant and extend all the way to the coast
- That ratepayers and the environment would end up bearing the cost for the benefit of an interested few
- That it is not right to make changes to Council policies to allow the loan to occur
- That the money could be put to better use
- That this is simply 'flogging a dead horse'
- That we should wait until the HBRC Ruataniwha Aquifer study is released in order for Water Holding's CHB to get a more solid business case to put to Council to secure public funding
- No guarantee that a private company will deliver benefits and that Council should employ consultants to do this work
- That Sole assets in the company are the IP of the previous scheme, so what other options are Water Holdings CHB likely to consider?
- That the interests of ratepayers are inadequately protected from the conflicting interests of the company's shareholders.
- The risks are understated and the benefits exaggerated
- The company plans a public relations campaign for a law change to allow the land swap for the high dam. Any other options offered are misleading and designed to secure public funding.

- Once public funds have been secured the company can change policies at any time
- That risk mitigation would need to include rigorous loan conditions and staged payments on the basis of milestones and that the Council should take a majority shareholding with rights to appoint the board
- Surface water users are the main beneficiaries and should be required to fund the scheme
- It is unlikely that the water storage would provide sufficient augmentation of river flows so it is unlikely that the dam will make economic sense
- Dairy farming and associated water demand will be curtailed by Plan Change 6
- Secure water supplies discourage adaptation to water scarcity and consideration of alternatives that have less impact on the environment, e.g. restoration of wetlands and rebalancing water take consents granted by the regional council
- That it doesn't stack up environmentally, socially or financially
- A legal framework needs to be put in place to hold Water Holdings CHB to account for any negative consequences of their proposed scheme
- Water storage is not mitigation for climate change
- The loan is not a loan, but a gift
- Council needs to work with the regional council and central government to implement law change to decrease water allocations. Summer conservation campaigns do nothing to save water when irrigators are carrying on business as usual.
- That giving money to a private company undermines community involvement such as through the Tukituki Task Force
- That given the law that directors of the company must act in the interests of shareholders, community interest will be secondary
- That if an off river water storage option was suggested it would be received better
- That Council should lobby Minister for the Environment to change legislation around ground water takes for large scale irrigation
- A more equitable water solution for all could prevent a water storage scheme being necessary
- That instead of fighting nature, that we should promote farming practices that align with the environment
- The loss of thousands of trees will further increase greenhouse gas emissions
- That Water Holdings CHB need to spend their own money to make sure that they will meet water quality and quantity objectives in the short and long term.
- That any further increase in farm output will increase nitrate levels further frustrating the objectives of Plan Change 6
- That Council grants should be available to more than one contestant, not just one company because they have asked for it

As can be read above within the analysis of submissions, a number of points were made in either support or against the proposal to provide a suspensory loan to Water Holdings CHB Limited.

Before presenting options to Council, the following part of the report attempts to pull out the key themes raised during submissions and provide further or clarified information for Council to consider.

The report also contains updates to Council on any matters that have progressed or changed since Council first considered this proposal in February 2019.

What could we possibly find in the IP that hasn't already been found before?

CHB Water Holdings Ltd, as the holder of the IP associated with the RWSS, is in a unique position to explore what value remains in the science, consents and construction plans to create a new approach to water storage as a part of the regional solutions for water security.

The direction of work has its foundational intent to store sufficient water during the winter period to secure minimum river flows during the summer months.

The scope of work that Water Holdings CHB Limited are seeking financial support for intends to work through the IP and engage with key stakeholders on a number of factors involved in the current consented structure.

The work will measure and prioritise the role of each factor in reaching a water storage solution that has wide community benefits and acceptance.

These factors include:

1. The volumes of water required in the main Makaroro, Waipawa and Tukituki tributaries to achieve minimum flow rates
2. The volume of water able to be held behind different wall heights
3. The breadth and composition of distribution network required to achieve coverage of the catchment, or parts thereof
4. The role water storage in this project could play in the wider regional approach to water security in the Tukituki Catchment – including Managed Aquifer Recharge and other private or community based water storage initiatives

There is clearly a relationship between the minimum flow level and the volume of storage required to guarantee that flow level in drier years. This, in turn, implies that there is a significant trade-off between the provision of the minimum flow and the availability of water for irrigation purposes.

The focus of the assessment work is to evaluate this basic trade off to find an option that is acceptable to a majority of the community that look at the priority bringing environmental flow to the river and how that could be leveraged to support the land use changes we want to achieve in Central Hawke's Bay.

What is unique with Water Holdings CHB Limited proposal is the level of investment made to date in validating and designing a scaled water storage development. It is worth noting that the investment to date was via the Hawke's Bay Regional Investment Company before the transfer of the IP to Water Holdings CHB Limited.

While significant investment in the proposition of water storage has already been made via the Hawke's Bay Regional Council Investment Company, the proposition that exists now is for community ownership and leadership of the IP to determine whether a refreshed approach can navigate a positive way forward.

Elected Members are requested to consider whether the investment proposition of providing what has been described as a last chance to look at the IP with fresh eyes to determine whether value can be found in the IP in helping solve water security challenges for Central Hawke's Bay.

What does the money get us? And how is the budget made up?

Water Holdings CHB Limited maintain that an opportunity exists to take a fresh look at the IP.

The IP was purchased by Water Holdings CHB Limited for \$100,000.00. Since the purchasing of the IP, the shareholders have provided further capital to enable the startup of the company and some early work on the investigation of the IP.

Mike Smith has been engaged by Water Holdings CHB Limited and has completed early work in developing a high level programme plan.

The investment being sought by Water Holdings CHB Limited from Central Hawke's Bay District Council is for \$250,000.

Water Holdings CHB Limited initially proposed that these funds will be matched by alternative funding sources.

The following Table provides a breakdown of the funding split that makes up the total proposed quantum of funds being sought.

Table 1. Water Holdings CHB Limited Investment Split.

Funder	Quantum	Comment
Provincial Growth Fund (or alternative funding sources)	\$250,000	Not confirmed
Other	\$50,000	To be confirmed from other partners
CHBDC	\$250,000	Council investment being sought
Total	\$550,000.00	

Water Holdings CHB Limited have provided a comprehensive budget to Council Officers.

The budget provides a 4 stage priority process in which stage 2, 3 and 4 only commence should stage 1 present a clear pathway forward.

The stages are described as follows:

Table 2. Water Holdings CHB Limited Expenditure Split.

Stage	Outcomes	Budget
Stage 1 Corporate Stakeholders Technical Project Management	Legal structure and asset ownership plan Stakeholder engagement and storage decision analysis Design basis and critical design decisions (power generation) Management of above activities	\$165,000
Stage 2		\$55,000

Operations Project Deliverables Technical Economic Project Management	Operating philosophy for completed assets (who, where, how) Hazards Management Plan, Project Execution Strategy Geotech data plan, power generation preliminary design Regional benefits update Management of above activities	
Stage 3 Corporate Project Deliverables Technical Economic Project Management	Business process set up for project execution PM plans – cost, schedule, logistics, IT, project controls etc Technical project scope confirmation Project economics evaluation Management of above activities	\$200,000
Stage 4 Corporate Technical	Communications and IM Plans Secondary Distribution scope confirmation	\$30,000
	SUBTOTAL	\$450,000
	Travel Costs Allowance	\$10,000
	Contingency	\$50,000
	Other Activities – Legal, Accounting etc	\$40,000
	TOTAL	\$550,000

At the time of writing this report, it remains unclear whether Water Holdings CHB Limited will be successful in attaining short term funding from the Provincial Growth Fund. Water Holdings CHB Limited are currently exploring alternative funding options but will not pursue this further until Stage 1 of the next steps is completed, as stage 1 will determine whether through a collaborative engagement process key stakeholders can find compromise and determine a positive way forward.

Water Holdings CHB Limited have an annual science charge payable to Hawke's Bay Regional Council. This is currently \$120,000.00 including GST per annum and is essential to keeping the resource consents, which have 8 years to run, active. Consequently, there is some urgency to completing review of the IP to ensure unnecessary cost is not incurred in keeping any unusable consents alive.

Where will Council fund the suspensory loan from?

If Council provides a suspensory loan to Central Hawke's Bay It is proposed Council's funding will be made available via the Rural Ward Funds.

The funds were established to provide funds for the provision or maintenance of recreational, cultural or infrastructural assets within the Aramoana / Ruahine Wards.

The Special Funds Policy is the Council policy that governs the use of the Rural Ward Funds. The Rural Funds, also known as the Aramoana / Ruahine Ward Disbursement Reserve Accounts were established following the 1989 Central Hawke's Bay Councils amalgamations.

The Special Funds Policy states that unless otherwise stated, only the interest earned on each fund shall be available to be spent, thereby preserving the individual fund amounts.

A decision by Council to provide \$250,000.00 by way of suspensory loan to Water Holdings CHB Limited, would require an amendment to the Special Funds Policy given the current policy is limited to only granting interest earned.

The Aramoana / Ruahine Rural Ward Funds have a current balance of \$811,114. By drawing on the reserve funds there would be no further impact on rates. The money is managed as part of the treasury function and is invested as part of the overall funds of Council as per the Treasury Policy – NZ Registered Banks A+/A-1 ratings

In the last 5 years the funds have been used to assist with the installation of a heat pump at the Settlers Museum, Tamatea Trails feasibility and Porangahau Hall War Memorial Project.

Feedback was raised during submissions that given it would not only be the rural sector that benefited from a long term water storage solution, that alternative funding provisions other than the Aramoana / Ruahine Rural Ward Fund should be considered.

Council could utilise funds from the Urban Ward Fund, but should note that the balance of this fund is only \$82,000.00.

How does the proposal apply to current Council Policies?

We believe the proposed structure of the funding is consistent with the intent of the fund and the potential benefits to the district could be significant. While the Rural Ward Fund have typically been used for Council owned assets, the policy does not specify that it must be Council assets.

Council's current investments policy limits equity investments to shares. The proposition to provide funding to Water Holdings CHB Limited via a suspensory loan is considered an investment because of the nature of the proposed key terms and conditions.

For Council to go ahead with this proposal a small change to the current Investment Policy would be required to allow this structure.

This would include the addition of "and other appropriate structures" in the definition of equity investments. The change is outlined below in red.

It may be appropriate to have limited investment(s) in equity (shares) and other appropriate structures when Council wishes to invest for strategic, economic development or social reasons, such as Local Government Insurance Corp^[1].

Council will approve equity investments on a case-by-case basis, if and when they arise.

^[1] Council currently holds 8,290 shares in the NZ Local Government Insurance Corporation Ltd. The purpose of the entity, in which most local authorities are shareholders, is to ensure that adequate insurance arrangements are available to local authorities at the lowest possible cost. The shares are not readily transferable.

Both changes to the Special Funds Policy and Investments Policy can be achieved via Council resolution and would only be recommended following community consultation when Council make deliberations on the Annual w 2019/20.

Commentary was made through submissions that the proposition was in breach of Council's Investment Policy.

This comes down to the definition of the Investment. Although this is a loan, it is being considered as an equity investment in nature rather than as a financial investment (such as term deposits and bonds).

Financial Investments has the following objective:

Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties.

These investments are done to protect the capital invested for future use and to produce a return to Council.

Equity Investment has the following objective:

It may be appropriate to have limited investment(s) in equity (shares) or appropriate structure when Council wishes to invest for strategic, economic development or social reasons, such as Local Government Insurance Corp.

Council will approve equity investments on a case-by-case basis, if and when they arise. The suspensory loan is being considered as equity investment as it is being considered for strategic and economic development reasons rather than as capital protection.

If Council chose to provide a grant or enter a service level agreement with Water Holdings CHB Limited, rather than provide a suspensory loan then Council's investment policy does not apply only the special funds policy.

Should Council be providing a suspensory loan to a Limited Liability Company?

Concerns were raised during formal submissions that Council were giving money to a private company.

Water Holdings CHB Limited is a limited liability company, 100% owned by private shareholders and describes itself as a conglomerate of community and business leaders in Central Hawke's Bay with an interest in securing the long term and sustainable water security for the region.

The entity, whilst a private business, promotes itself as being not for private profit from the assets which have been purchased.

Water Holdings CHB Limited shareholding (of 9999 shares) is split between six shareholders being:

- Hugh Ritchie
- Gavin Streeter
- Tim Gilbertson
- Bruce Stephenson
- Bruce Worsnop
- Arthur Rowlands

In addition to the shareholder/ directors, Water Holdings CHB Limited has an independent chair, Angus Mabin.

All shareholders are actively involved in local businesses throughout Central Hawke's Bay and the wider Hawke's Bay region.

Water Holdings CHB Limited holds the IP for the Ruataniwha Water Storage Scheme that was developed by Hawke's Bay Regional Investment Company Ltd and was sold in 2018 following Hawke's Bay Regional Council's decision not to pursue the feasibility of the Ruataniwha Water Storage Scheme.

The proposed investment being sought by Water Holdings CHB Limited is not a unique investment precedent.

There are multiple examples whereby private/ public investment has been made into large scale infrastructure/ social infrastructure projects by Government and Councils, where there is a direct tangible community benefit and return.

Throughout submissions concerns were raised regarding the proposition that Council are providing financial assistance to a Private company.

The proposition of Water Holdings CHB Limited, which is currently a holding company transferring to a Charitable Trust has been explored. However the complexity associated with the development of a Charitable Trust when the intent is for Water Holdings CHB Limited to be a holding company until a time that it can be determined whether there is a way forward to extract value from the IP means there is little merit in further exploring this.

What are the proposed Key Terms and Conditions, and what checks and balances will be put in place?

In Council making any form of investment, whether by way of a grant, loan or as a direct investment; careful consideration needs to be given to how the funds will be used and what caveats or conditions will be imposed so as to ensure Councils position is protected. The nature of the caveats or conditions will largely depend on the commercial structure Council elects to choose.

Whilst the investment being sought is not significant in the context of the overall potential opportunity, it is still a significant sum of monies for Council to consider and the final implementation and commercialisation of the IP will require a significant level of investment to be made.

Council Officers have intentionally not gone down the path of engaging expert legal advice to draw up the Key Terms and Conditions, or a draft agreement. Should Council in principle proceed with the proposal to provide a suspensory loan, the next step would be to engage legal experts in develop a robust commercial agreement that outlined key terms and conditions which protected Council's interests, sought accountability and line of sight to progress of milestones and ensured a staged approach to any investment was followed.

In terms of the investment being treated as a loan, we believe the most appropriate mechanism would be for Councils investment into Water Holdings CHB Limited to be a suspensory loan.

Based on the feedback during community engagement, it is critical that should Council approve in principle the suspensory loan, strict checks and balances need to be put in place.

The basis of payment of any funds would be made on a milestone basis being the completion or satisfaction of agreed outputs. This will protect Council's position and the potential for any loss. It will also ensure if the initiative is not feasible there will be a short no rather than a long no with any unnecessary Council expenditure not occurring. This will also provide a feedback loop for reporting purposes.

The following condition precedents for repayments or dispensation of liabilities are likely to include:

Repayment:

- The sale or divestment of Water Holdings CHB Limited.
- The transfer of IP to a subsidiary entity or third party, other than Council.
- Failure to deliver outputs identified

Dispensation:

- The development of water storage facilities and measureable economic benefits being created and realised; being:
 1. Contribution towards water security solution identified
 2. Employment.
 3. New business/ investment.
 4. The review of IP does not identify any tangible or financially sustainable water storage solution that can be implemented.

We believe if Water Holdings CHB Limited do receive a dispensation under point 4 Council should as condition of the loan agreement have access to all IP obtained and developed by Water Holdings CHB Limited as part of the investigation exercise.

Some options available for Council to consider but not necessarily recommended to agreeing to a \$250,000.00 suspensory loan are as follows:

1. The appointment of an observer to Water Holdings CHB Limited.
2. Seek the suspensory loan to be converted to equity in any commercial proposition should one eventuate.

Another option available to Council is rather than providing a suspensory loan of \$250,000.00 a smaller sum of money could be provided by way of grant or service level agreement to Water Holdings CHB Limited. An example - Council could enter a service level agreement of a smaller sum of money with Water Holdings CHB Limited to allow Stage 1 or part of the work identified by Water Holdings CHB Limited work to be completed so they are in a position to constructively contribute to the Tukituki Water Taskforce in finding collaborative water security solutions.

Does the proposal contradict the Draft Environmental and Sustainability Strategy?

The Draft Environmental and Sustainability Strategy aims to capture those activities and initiatives that Council can influence, coordinate or facilitate, and in some instances actually deliver.

At its heart, the Strategy has four primary objectives or priorities and four supporting themes that set out how Council will act to work towards the priorities. The four priorities are:

- Managing our impact on waterways
- Increasing recycling and reducing waste to landfill
- Conserving water
- Managing for climate change

A key issue raised throughout feedback was the perception that the adoption of the Strategy is contradicted by Council's proposal to provide a suspensory loan to Water Holdings CHB Limited.

While the issues need to be debated and determined separately, Officers advice is that there is connection between the two issues.

Council Officers advice to Elected Members is that the security of water to landowners presents greater opportunities to enhance the environmental, social, economic and cultural aspirations of Central Hawke's Bay through positively enabling change in land use to allow a move from product volume to product value and keeping within Plan Change 6 limitations, while potentially also enhancing environmental summer flows.

The proposal to provide Water Holdings CHB Limited with a suspensory loan has the opportunity to support the objectives of the Environmental and Sustainability Strategy.

Security of water will assist the Central Hawke's Bay economy in further transitioning to a high-value less animal intensive, lower nutrient producing activities which ultimately supports the priorities set out in the Environmental and Sustainability Strategy.

How does the proposal fit into the Tukituki Water Taskforce and Hawke's Bay Regional Council's role?

The Tukituki Water Taskforce was formed from a view within both Hawke's Bay Regional Council and the Central Hawke's Bay District Council that action was needed within the catchment community to work through what was anticipated to be a very dry summer and the recognition that it had potential impacts on both commercial and domestic water users and required both short-term and long term strategies.

However, in light of some of the challenges experienced by the Tukituki Water Taskforce and what has been learnt from other processes across the region and nationally, the Hawke's Bay Regional Council are taking some time to reflect on the approach to ensure that we have the right model and the right resourcing to support a collaborative approach in understanding and solving our water security problem in Central Hawke's Bay.

Despite a pause for the Tukituki water taskforce at the moment, The Hawke's Bay Regional Council have made it clear they are committed to taking a leadership role in partnership with Central Hawke's Bay District Council.

Further to the role of the Water Tukituki Taskforce, the Hawke's Bay Regional Council are currently awaiting to hear the outcome of the Regional Water Security application to the Provincial Growth Fund. It is expected an outcome will be known on Monday 10TH June.

Options for Council to consider

One of the points raised through submissions was the risk that Council in supporting the suspensory loan were superseding the Tukituki water taskforce process. In the re-formation of the Taskforce with HBRC, it is suggested that the following questions need to be posed to bring more advice back to Council, these questions include:

- What does the future model for Tukituki Water Taskforce look like?
- How does the work of Water Holdings CHB Limited potentially fit into this model?
- What is the opportunity for Water Holdings CHB Limited to contribute to the water security solutions framework within the Tukituki Water Taskforce process?
- How does the Regional Water Security Package impact Central Hawke's Bay and is there any synergy with the work Water Holdings CHB Limited intend to undertake?

It is anticipated that this information could be available to Council on the 20 June 2019.

While Council may consider to make a decision in the absence of this information, Council may also consider awaiting this additional information.

Either way the Chief Executive seeks direction from Council on the general approach in principle Council seeks to take on this matter, so that the required advice can be researched and provided.

If Council agreed in principle to the tagging of \$250,000.00 from the Rural Reserves Fund to exploring water security solutions for Central Hawke's Bay, then further work could be completed to develop a framework for Council to consider. The framework would consider the roles of the Tukituki Taskforce, Hawke's Bay Regional Council, and the capacity for Water Holdings CHB Limited to contribute to a collaborative community approach.

Options available for Council consideration could include:

Option 1	<p>That Council agree in principle to provide a suspensory loan to Water Holdings CHB Limited of up to \$250,000.00.</p> <p>That the Chief Executive be delegated authority to negotiate a Draft Services Agreement with Water Holdings CHB Limited which includes Key Terms and Conditions to bring back to Council for further consideration.</p> <p>That the Draft Services Agreement which includes Key Terms and Conditions include provisions for a staged approach to the funding with a high level of checks and balances.</p>
Option 2	<p>That Council does not agree in principle to provide a suspensory loan to Water Holdings CHB Limited of up to \$250,000.00.</p>

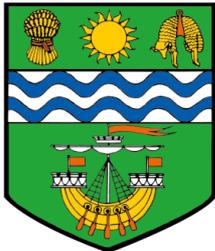
Additional options Council may consider in alternatives or additions to these options are:

- Council's leadership and participation in the Tukituki Water Taskforce.
- Contributing a smaller sum of money to Water Holdings CHB Limited by way of grant or service level agreement to complete a particular stage of the work identified to allow Water Holdings CHB Limited to contribute to a collaborative community approach.
- Contributing financially to the Tukituki Water Taskforce
- Considering Central Hawke's Bay District Council's own resource requirements to contribute to an enhanced collaborative community approach.

Next Steps

On decision from Council the Chief Executive will take appropriate direction, and then provide advice on next steps.

From: [redacted]
To: [Leigh Collecutt](mailto:Leigh.Collecutt)
Cc: [redacted]
Subject: FW: Re: CO20190523_1872_2160_1.DOCX
Date: Thursday, 27 June 2019 2:37:11 PM
Attachments: [image290207.png](#)
[image222925.png](#)
[image616166.png](#)
[image605900.png](#)
[image701408.png](#)
[image965724.png](#)
[image613426.png](#)
[image600510.png](#)
[image132559.png](#)



[redacted]
Information Services Officer
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210
06 857 8060

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-----Original Message-----

From: Angus Mabin [redacted]
Sent: May 16, 2019 1:27 PM
To: Monique Davidson [mailto:xxxxxxxxxxxxxxxx@xxxxx.xxxx.xx]
Subject: Re: CO20190523_1872_2160_1.DOCX

Been away all morning and just caught up with this. Could you give me please a quick ring before our WHCHB meeting at 3.00pm today.

On Thu, May 16, 2019 at 7:48 AM Monique Davidson <xxxxxxxxxxxxxxxx@xxxxx.xxxx.x> wrote:

Hi Angus

-

In confidence

-

Thanks

-

Monique

[CHBDC Website](#)



Monique Davidson
Chief Executive
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210

06 857 8060
027 601 1711



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From: [redacted]
To: [Leigh Collecutt](mailto:Leigh.Collecutt)
Cc: [redacted]
Subject: FW: Re: "Next Gen" CHB
Date: Thursday, 27 June 2019 2:31:39 PM
Attachments: [image328887.png](#)
[image819912.png](#)
[image190410.png](#)
[image710917.png](#)
[image512748.png](#)
[image490029.png](#)
[image747465.png](#)
[image781290.png](#)
[image503445.png](#)



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PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210
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-----Original Message-----

From: Angus Mabin [redacted]
Sent: April 17, 2019 11:12 AM
To: Alex Walker [mailto:xxxx.xxxxxx@xxxxx.xxxx.xx]
CC: hugh [redacted] Gerald Wilson [redacted]
Subject: Re: "Next Gen" CHB

Booked in, looking forward to it.

On Wed, Apr 17, 2019 at 10:38 AM Alex Walker <xxxx.xxxxxx@xxxxx.xxxx> wrote:

Hi Angus and Hugh

-

I have been very aware that our "next generation" of farmers and business owners in CHB seem to have been either absent or silent during our recent consultation about water. With some help, a small group of keen, intellectual, worldly and visionary "next gens" are coming together to talk about how they see the future of farming, water and local economies. They are excited about the opportunity to share what some of this looks like with you guys – and a chance to offer their help and insights into how to contribute to the strategy for water.

-

To this end, I would like to invite you to a session with us from 3.30 next Friday 26th April – details of location to be confirmed.

The intent is to have a small but diverse group, Chatham House rules and all creative thinking encouraged (!). I will follow up with a phone call to each of you but wanted to get it on your radar ASAP as this has some exciting possibilities

-

Cheers

Alex

-

-
-
-
[CHBDC Website](#)



Alex Walker
Mayor of Central Hawke's Bay
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210

06 857 8060
027 860 7752

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From: [redacted]
To: [Leigh Collecutt](#)
Cc: [redacted]
Subject: FW: Re: Check In
Date: Thursday, 27 June 2019 2:34:27 PM
Attachments: [image563267.png](#)
[image496903.png](#)
[image252039.png](#)
[image271904.png](#)
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[image139566.png](#)
[image353233.png](#)



[redacted]
Information Services Officer
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210
06 857 8060

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-----Original Message-----

From: Angus Mabin [redacted]
Sent: May 7, 2019 6:58 PM
To: Monique Davidson [mailto:xxxxxxx.xxxxxxxx@xxxxx.xxxx.xx]
Subject: Re: Check In

See you at 9

On Tue, May 7, 2019 at 2:12 PM Monique Davidson <xxxxxxx.xxxxxxxx@xxxxx.xxxx.xx> wrote:

9AM ? If that doesn't suit, let me know and I can shift other appointments.

-



Monique Davidson
Chief Executive
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210
06 857 8060
027 601 1711

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From: Angus Mabin [redacted]
Sent: 07 May 2019 07:12 AM
To: Monique Davidson <xxxxxxx.xxxxxxxx@xxxxx.xxxx.xx>
Subject: Re: Check In

-
What time?
-

On Mon, May 6, 2019 at 3:56 PM Monique Davidson <xxxxxxxxxxxxxxxx@xxxxx.xxxx.xx> wrote:

Could we catch up Wednesday morning?



Monique Davidson
Chief Executive
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210

06 857 8060
[027 601 1711](tel:0276011711)

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From: Angus Mabin [REDACTED]

Sent: 06 May 2019 09:23 AM

To: Monique Davidson <xxxxxxxxxxxxxxxx@xxxxx.xxxx.xx>

Subject: Re: Check In

-
I have a budget from Mike, and am seeing our lawyer tomorrow.
-

On Mon, May 6, 2019 at 9:02 AM Monique Davidson <xxxxxxxxxxxxxxxx@xxxxx.xxxx.xx> wrote:

Hi Angus

-
How are you getting on with the information around those questions?
-

I am keen to have my report finalised by the end of this week.
-

Should we arrange a time to check in?
-

Thanks
-

Monique

Monique Davidson
Chief Executive
Central Hawke's Bay District Council

PO Box 127



28 - 32 Ruataniwha Street

Waipawa 4210

06 857 8060

[027 601 1711](tel:0276011711)

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Got an idea or feedback? Fantastic! You can [let us know here](#)



From: [redacted]
To: [Leigh Collecutt](#)
Cc: [redacted]
Subject: FW: RE: Selection Phase Estimate
Date: Thursday, 27 June 2019 2:35:50 PM
Attachments: [image423589.png](#)
[image061251.png](#)
[image851923.png](#)
[image420788.png](#)
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[image604676.png](#)
[image100179.png](#)
[image888425.png](#)
[image452454.png](#)



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Central Hawke's Bay District Council

PO Box 127
 28 - 32 Ruataniwha Street
 Waipawa 4210

 06 857 8060

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-----Original Message-----

From: Monique Davidson [mailto:xxxxxxxxxxxxxxxx@xxxxx.xxxx.xx]
Sent: May 13, 2019 12:13 PM
To: Angus Mabin [redacted] mike.d.smith_ [redacted]
CC: Monique Davidson [mailto:xxxxxxxxxxxxxxxx@xxxxx.xxxx.xx]
Subject: RE: Selection Phase Estimate

Morning Angus and Mike

I am working on a report to Council and I need to summarise the investment split and the expenditure split. Can you **URGENTLY** populate the second table identifying the amount needed and what the outcomes at a high level are of each stage. I have attempted to do it myself but the budget you gave me is so detailed I think its best that you describe at a high level what each stage provides.

If I could have this **ASAP** – preferably the expenditure split would match the investment split assuming you will have an amount allocated for contingency.

Thanks

Table 1. Water Holdings CHB Limited Investment Split.

Funder	Quantum	Comment
Provincial Growth Fund (or alternative funding sources)	\$250,000	Not confirmed
Other	\$50,000	To be confirmed from other partners
CHBDC	\$250,000	Council investment being sought
Total	\$550,000.00	

Water Holdings CHB Limited have provided a comprehensive budget to Council Officers.

The budget provides a 4 stage priority process in which stage 2, 3 and 4 only commence should stage 1 present a clear pathway forward.

The stages are described as follows:

Table 2. Water Holdings CHB Limited Expenditure Split.

Stage	Outcomes	Budget
Stage 1		\$80,000.00
Stage 2		
Stage 3		
Stage 4		
	TOTAL	



Monique Davidson
Chief Executive
Central Hawke's Bay District Council

PO Box 127
 28 - 32 Ruataniwha Street
 Waipawa 4210

06 857 8060
 027 601 1711

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From: Angus Mabin <xxxxxxxxxx@xxxxxxx.xxx.xx>
Sent: 08 May 2019 08:12 AM
To: Monique Davidson <xxxxxxxx.xxxxxxxx@xxxxx.xxxx.xx>
Subject: Fwd: Selection Phase Estimate

FYI. Talk soon.

----- Forwarded message -----

From: Mike Smith <[redacted]>
Date: Wed, May 1, 2019 at 5:40 PM
Subject: Selection Phase Estimate

To: [angusmabin](#), Arthur Rowlands, [redacted], Bruce Worsnop, [redacted], [bruce](#), [gavin](#), [gavin](#), [hugh](#), [redacted], [tim](#)

Angus,

As mentioned in my email earlier today, attached are a series of files describing my estimate for the selection phase activities and the associated cost estimate. The "Summary" file gives the highest level breakdown of the costs, while the "Budget Estimate" file shows the individual estimates by category, contractor and priority. The "Scope Descriptions" file gives an outline of what each activity is intended to achieve, and is the basis of the tables in the other files. The Summary file can be printed on A4, but the other two will be best printed on A3 if you can.

I have broken the activity list down into different priorities so activities can be selectively executed based on the need and the funds available. The priorities are ranked as follows:

- Priority 1 = have to do next, as soon as funds are available.
- Priority 2 = key activities to set foundation for subsequent work.
- Priority 3 = secondary project management deliverables and concept selection deliverables. Required, but can wait.
- Priority 4 = tertiary project management deliverables that can wait even longer and concept selection dependent activities (i.e. secondary distribution deliverables) which may not be required.

I have also allocated a notional contractor for each task. This is basically derived from who did the original work as it is likely to be more efficient to get them to revise and update their documents for our needs. There are a few deliverables where I have deliberately NOT chosen the previous contractor with the intention of getting a different perspective, and a quality check, on the original work. Some of the deliverables, which are mainly the project

management documents, I have allocated to me. A few others do not have a specific contractor identified, so a generic identifier is used (e.g. IM/IT contractor). I have specified Catalyze as the contractor for the decision analysis as these are the folks I have talked about previously that are based on Auckland/Wellington.

For the costs I have used a generic rate of [redacted] as an average rate for the overall work. Where I know this is likely to be different, I have used a different rate (i.e. deliverables for me are at the [redacted] rate we agreed, and I know Catalyze will be more expensive). Note that a [redacted] increase in the generic rate will add approximately [redacted] to the overall estimate.

The overall estimate, broken down to highest level categories, is below. For the sake of clarity, the budget amounts for my costs are identified in the table below as well. The second table shows the same information split by priority.

Project Management (MDS)		\$45,000	Project
Management (MDS)		\$45,000	
Activities			
Activities			
Project Management Deliverables (MDS)	\$20,000		
Priority 1	\$148,000		
Stakeholder Activities (MDS)	\$40,000		
Priority 2	\$74,000		
Project Management Deliverables (Others)	\$54,000		
Priority 3	\$150,000		
Other Deliverables	\$294,000		
Priority 4	\$36,000		
Activities Total		\$408,000	
Activities Total		\$408,000	
Travel		\$10,000	
Travel	\$10,000		
Contingency (10%)		\$47,000	
Contingency (10%)		\$47,000	
Total		\$510,000	
Total	\$510,000		

I think the total time to complete the scopes identified is likely to be about 6 months, depending on the availability of relevant stakeholders for meetings and the contractors to do the work.

Some provisos on the estimate:

1. The activity list is my best estimate of what needs to be done as of today. This may change as the work progresses.
2. The hours for each activity are my estimate and the actual hours ultimately agreed with a given contractor may differ
3. An average manhour rate of \$150 as been used and this is likely to differ from the rates offered by a given contractor.
4. All estimates EXCLUDE GST
5. As the work progresses it is likely that additional activities will be identified, and others deleted. Offsets can be used where possible, by deferring lower priority activities for example, but additional funds may still be required
6. No provision has been made for:
 - a. administration costs for the company
 - b. legal advice that may be required
 - c. tax advice that may be required
 - d. consent charges that may be payable
 - e. other costs that the company may incur

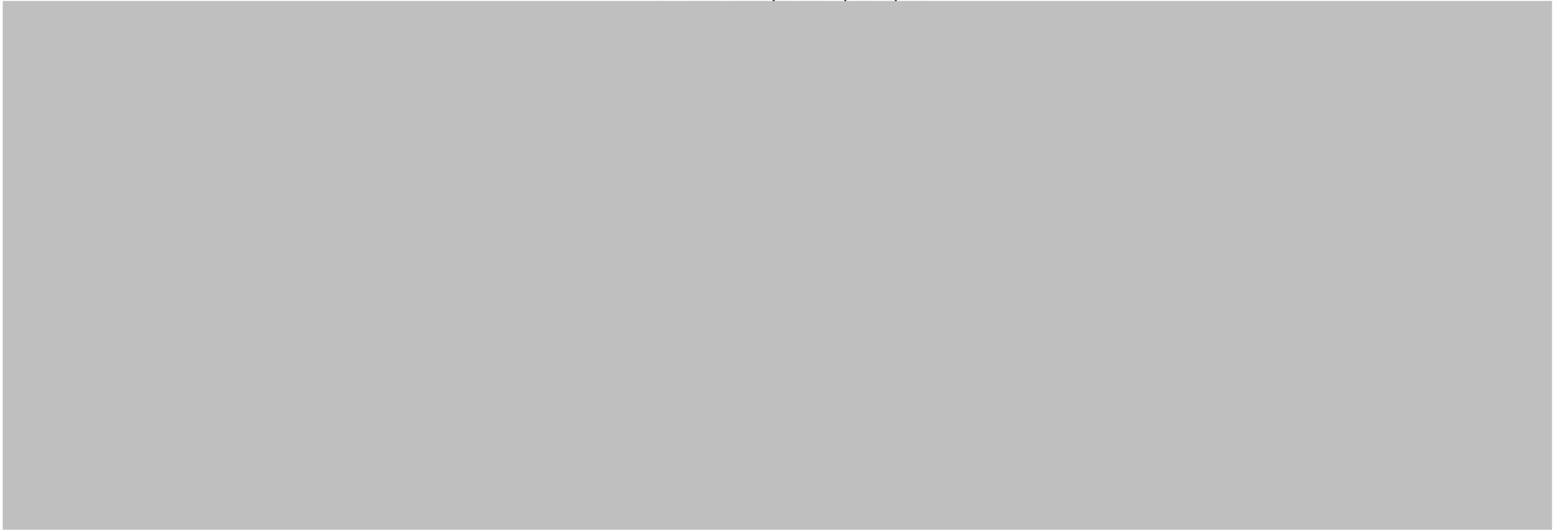
I'm happy to discuss the activities and their scopes anytime, or any changes you want to make.

Regards
Mike

Tuki Tuki Water Storage
Selection Phase Activity List and Scope Description

ID	Category	Deliverable	Scope	Deliverable Type	Asset	Priority	Contractor	Estimated Hours	Rate	Cost

Tuki Tuki Water Storage
Selection Phase Activity List and Scope Description



Tuki Tuki Water Storage Project
Selection Phase Budget Estimate

Deliverable Type

(All)



Tuki Tuki Water Storage Project
Selection Phase Budget Estimate

Deliverable Type

(All)



From: [redacted]
To: [Leigh Collecutt](#)
Cc: [redacted]
Subject: FW: Please ring when free
Date: Thursday, 27 June 2019 2:37:08 PM
Attachments: [image768346.png](#)
[image074362.png](#)
[image928829.png](#)
[image145645.png](#)
[image833984.png](#)



[redacted]
Information Services Officer
Central Hawke's Bay District Council

PO Box 127
28 - 32 Ruataniwha Street
Waipawa 4210

06 857 8060

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-----Original Message-----

From: Angus Mabin [redacted]
Sent: May 17, 2019 10:22 AM
To: Monique Davidson [mailto:xxxxxxx.xxxxxxx@xxxx.xxxx.xx]
Subject: Please ring when free

From: [redacted]
To: [Leigh Collecutt](#)
Cc: [redacted]
Subject: FW: media release MED2019120 - Council Earmarks \$250k To Water Security Initiatives In Central Hawkes Bay.pdf
Date: Thursday, 27 June 2019 2:37:35 PM
Attachments: [image574888.png](#)
[image118128.png](#)
[image802258.png](#)
[image124961.png](#)
[image470260.png](#)
[media release MED2019120 - Council Earmarks \\$250k To Water Security Initiatives In Central Hawkes Bay.pdf](#)
[ATT00001.txt](#)



[redacted]
Information Services Officer
Central Hawke's Bay District Council

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06 857 8060

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-----Original Message-----

From: Monique Davidson [mailto:xxxxxxxxxxxxxxxx@xxxxx.xxxx.xx]

Sent: May 23, 2019 6:58 PM

To: angusmabin [redacted]

Subject: media release MED2019120 - Council Earmarks \$250k To Water Security Initiatives In Central Hawkes Bay.pdf

COUNCIL EARMARKS \$250K TO WATER SECURITY INITIATIVES IN CENTRAL HAWKE'S BAY

Thursday 23 May 2019

MED201920

Central Hawke's Bay District Council today earmarked \$250,000 from the Rural Wards Reserve Funds to support water security initiatives in Central Hawke's Bay as part of its Annual Plan 2019/20 deliberations.

Water security presents the most significant challenge and opportunity for a thriving Central Hawke's Bay of the future and has been a focus of much discussion in Central Hawke's Bay for several years.

The decision follows a thriving consultation process where the council sought views on the proposal that a \$250,000 suspensory loan be provided to Water Holdings CHB Limited in the 2019/2020 Annual Plan.

The council had proposed to allocate \$250,000 from the Rural Wards Reserve Fund to work specifically with Water Holdings CHB Limited and other key stakeholders to determine feasible water storage and security options for Central Hawke's Bay.

Councillors deliberated over submissions from the public and after careful consideration, reached a consensus to earmark the \$250,000 in support of investigating wider water security initiatives, using a collaborative approach at a local and regional level.

A further request was made by Elected Members to council staff to develop a framework that investigates the issues of water security to create a local package of solutions, which includes the potential role of Central Hawke's Bay District Council, Water Holdings CHB Limited, Hawke's Bay Regional Council, the Tukituki Taskforce and other community groups.

Mayor of Central Hawke's Bay - Alex Walker, notes the crucial importance of water security for a thriving Central Hawke's Bay.

"Water security is such a crucial issue for our district", says Mayor Alex Walker.

"Our decision today reflects our commitment to gain a broader understanding of the issue of water security and is made in light of the fact that we need to invest in options alongside our community in a collaborative way".

Council's intent in developing a framework that considers water security initiatives, will include a conversation with the community about what these initiatives could look like and how these are prioritised in an inclusive and contextual way.

“I want to publicly thank members of the community for their submissions. The level of thought, dedication and time put into the submissions was fantastic”, says Mayor Alex Walker.

“I also want to recognise the shareholders of Water Holdings CHB Limited for their leadership in bringing forward this issue and we look forward to continued engagement on future options brought to the table”.

The Annual Plan 2019/20 will be formally adopted at its Council meeting on 20 June 2019.

Ends

Authorised by Chief Executive: Monique Davidson

Media contact

Monique Davidson, Chief Executive | P 06 857 8060 M 027 601 1711

Kim Parker, Communications and Engagement Manager | M 027 297 0542

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