Meeting: Regional Council

Meeting Date: 12 May 2021

Items under Separate Cover

As noted on the Regional Council Agenda for the meeting on Wednesday 12 May 2021, the following items are included under separate cover:

Reports

Decisions Required

Item No.	Subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Grounds under Section 48(1) for the passing of this resolution	When the item can be released into the public
8.2	Attachment 4 - BanCorp Pre-funding Strategy Attachment 5 - BanCorp Borrowing Strategy	Withholding the information is necessary to protect information where the making available of the information would be likely to unreasonably prejudice the commercial position of the person who supplied or who is the subject of the information	Section 48(1)(a)(i) Section 7 (2)(b)(ii)	On the Chief Executive's approval

Item 8.2

Report To:	Regional Council
Meeting Date:	12 May 2021
Report Writer:	Mark Le Comte, Principal Advisor, Finance; Mereana Toroa, Finance Support Team Lead and Debbie Hyland, Finance & Transport Operations Manager
Report Authoriser:	Mat Taylor, General Manager, Corporate
Purpose:	To outline the overall financial situation as context for Long Term Plan 2021-2031 decision making. To finalise Financial Policy and Treasury Management settings.

Financial Overview - Deliberations Decisions

Executive Summary

This report provides an update of the draft Long Term Plan 2021-2031 Budget and provides information on the context within which Council is making its financial decisions.

The financial implications of the operational budget amendments and the various staff deliberations recommendations are discussed in each of the individual deliberations reports and summarised in Section 3 of this report.

In total, 19 submissions were received related to 'Rates and Expenditure'. A summary of these submissions is included in Section 5 of this report.

Council has the option to further use its balance sheet reserves to lower the impact on the community of forecast rates increases in the early years of the LTP, as well as to provide for strategic investments to respond to major challenges, where expenditure requirements and timings are uncertain.

Council, Quayside and the Local Government Funding Agency are working to replace Council's current on-lending to Quayside, with lending directly from the LGFA to Quayside. This work is likely to be completed during 2021/22, and will provide greater transparency of borrowing levels and costs. Staff continue to work with Quayside on developing a distributions and reserving policy to support the Council's LTP forecasts.

The LTP 2021-2031 including the Financial Strategy, Revenue and Financing Policy, and Treasury Policy will be updated with direction from Council at deliberations and undergo a final external audit before being presented for adoption in June 2021.

Recommendations

That the Regional Council:

1 Receives the report, Financial Overview - Deliberations Decisions.

2 Notes operating and capital budget changes made since consultation as summarised in Section 3;

3 Confirms operating and capital budget changes from deliberations reports (Attachments 2 and 3);

4 Confirms that in the draft LTP for adoption, the forecast level of reserves use as follows:

(a) Maintain real general rates increases in LTP Year 1 at 5.8% and 3% in LTP Years 2 and 3

(b) Fund the Western Bay of Plenty Tauranga Transport Systems Plan in LTP Year 1, 2, and 3

(c) Fund capital expenditure in LTP Year 3-10

5 Confirms the use of borrowing in the draft LTP for adoption

(a) Additional borrowing of approximately $10 million in 2022/23 for Ford Road Pump Station capital works and $2 million for Sustainability Initiatives funding.

(b) Gross total borrowings, including existing borrowing, funding capital expenditure of $141 million.

(c) Quayside – existing on-lending of $50 million and new borrowing of $100 million, noting staff will work towards replacing all on-lending with direct lending via the Local Government Funding Agency;

6 Delegate to the Chief Executive authority to invest funds into Council's Toi Moana Trust, to gain greater investment returns in line with the Treasury Policy and that the process to enable this will involve consideration through subsequent Annual Plans;

7 Notes that, if all recommendations are accepted, Council will set an unbalanced budget, and resolve that this is financially prudent;

8 Confirms the public be excluded on the grounds set out in the Local Government Official Information and Meetings Act 1987 from consideration of the following report attachments:

(a) BanCorp Pre-funding Strategy under Section 48(1)(a)(i) Section 7 (2)(b)(ii) as withholding the information is necessary to protect information where the making available of the information would be likely to unreasonably prejudice the commercial position of the person who supplied or who is the subject of the information and that this attachment be released to the public on the Chief Executive's approval.

(b) BanCorp Borrowing Strategy under Section 48(1)(a)(i) Section 7 (2)(b)(ii) as withholding the information is necessary to protect information where the making available of the information would be likely to unreasonably prejudice the commercial position of the person who supplied or who is the subject of the information and that this attachment be released to the public on the Chief Executive's approval.

9 Confirms the decision has a medium level of significance as determined by the Council's Significance and Engagement Policy. Council has identified and assessed different options and considered community views as part of making the decision, in proportion to the level of significance.

1. Introduction

Council's journey to develop a sustainable and prudent budget for the next ten years has followed an extensive process over the preceding twelve months. This included a full review of the Council's financial arrangements, options, and settings conducted by PwC (the Financial Framework Review). This complex financial analysis and discussion, with independent advice, established the most appropriate way of funding Council's expenditure through a period of large uncertainty and growing demand for services.

At its meeting on 16 February 2021, Council adopted the Consultation Document *'Whakaekea tenei waka! Join our journey'* and supporting documents, including the draft Financial Strategy, Revenue and Financing Policy and Treasury Policy for the Long Term Plan 2021-2031 (LTP 2021- 2031) for public consultation. The underlying information to the Consultation Document included financial forecasts for operating expenditure, capital expenditure, revenue and treasury for the next ten years.

Some amendments have been made to the draft LTP 2021-2031 financial estimates to reflect the latest economic forecasts and unavoidable cost pressures. Further changes to the forecasts were also required as a consequence of recent Council decisions, e.g. repaying short-term borrowing.

There are a significant number of deliberation issues set out in the Council agenda which have a consequential financial impact. These implications may affect operating expenditure and revenue, capital expenditure, borrowings and the use of reserves.

The financial implications of the operational budget amendments and the various staff deliberations recommendations, are discussed in each of the individual deliberations reports and summarised in Section 3.2 of this report.

In total, 19 submissions were received related to 'Rates and Expenditure'. A summary of submissions is included in Section 5. Council has 28 funding requests from the community and four third party infrastructure funding requests which are discussed in detail in this agenda. A summary of these requests and staff recommendations is included in the attachments to this report.

Staff have considered the Financial Framework Review, current economic forecasts, and submissions in proposing the overall funding approach to Council and whether any policy changes should be made as a result of submissions received.

The draft LTP 2021-2031 including the Financial Strategy, Revenue and Financing Policy, and Treasury Policy will be updated following direction from Council at the deliberations meeting and will undergo a final external audit before being presented for adoption by Council in June 2021.

1.1 Attachments

The following attachments are included with this report:

Attachment 1 PwC BOPRC Financial Framework Review Summary

This is an outline of the main parts of the Financial Framework and options that Council can consider to optimise its financial arrangements.

Attachment 2 LTP – Summary of Deliberations Recommendations Budget Changes

This is a detailed schedule of all the financial implications included in the LTP deliberations reports for this meeting (if Council approves the recommendations).

Attachment 3 Community Funding and Third Party Infrastructure Funding Requests

This is a summary of all funding requests and staff recommendations.

Attachment 4 Bancorp Pre-Funding Strategy (confidential)

This is treasury advice related to short term funding opportunities.

Attachment 5 Bancorp Borrowing Strategy (confidential)

This is treasury advice related to long-term borrowing and investing.

1.2 Important Process Note

This report is prepared based on various necessary assumptions in order to prepare a report in advance of the Council deliberations meeting, including that the recommendations made by staff within all deliberations reports are accepted.

Should Council make decisions on the day of the deliberations meeting that differ from the staff recommendations, then staff will recast the financial forecasts (assuming this is necessary) and present an update to the financial forecasts at the conclusion of the meeting.

This report details changes to the draft LTP for consultation recommended as part of the LTP deliberations process and results in the following:

- 5.8% real general rates increase in 2021/22, the level proposed in the Consultation Document and a real targeted rates increase of 14.8% (consultation 8.9%) resulting in a total real rates increase of 10.3% in LTP Year 1 (consultation 7.3%).
- Assuming all deliberations recommendations are agreed to, staff recommend reserves use of $2.6 million per annum to reduce the overall impact of general rates increases in the first three years of the LTP (a total of approximately $8 million from the Regional Fund reserve over three years).

The 5.8% real general rates increase is equivalent to around $16 per property for 2021/22 depending on the area ratepayers live in. This is consistent with the Consultation Document.

As a rule of thumb, each 1% increase in general rates generates $280,000 in general rates revenue in 2021/22.

1.3 Legislative Framework

Council is required to have a Long Term Plan under the LGA s93, and reports from this meeting recommend various budget changes, in response to the Special Consultative Procedure that has been undertaken under the LGA S83.

In addition, the LGA s100 sets the requirement to have a balanced budget unless it is prudent to do otherwise and LGA S101-111 outline the various financial strategies and policies that are required as part of prudent Financial Management.

1.4 Alignment with Strategic Framework

This report covers financial matters and indirectly supports the provision of community outcomes.

1.4.1 Community Well-beings Assessment

This report covers financial matters and indirectly supports the provision of community well-being.

1.5 Significance

The recommended proposal/decision has been assessed against the criteria and thresholds in Council's Significance and Engagement Policy, and can be considered:

Medium	The decision is not within existing budgets and does not implement the current long term plan or annual plan.

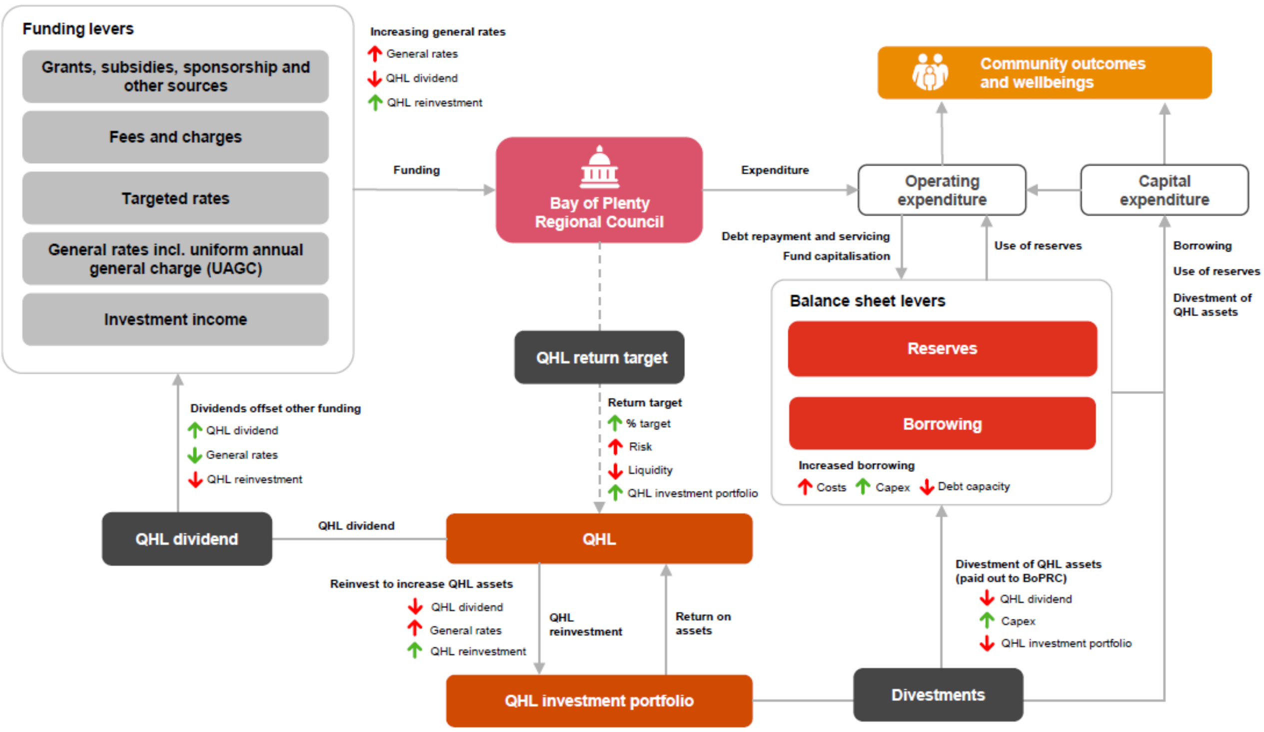
2. Background

2.1 Financial Framework Review

The Financial Framework Review outlines the principal financial levers available to Council and assisted with finding the appropriate settings to optimise the balance between service delivery, affordability, resilience, and intergenerational equity.

A summary of the PwC led Financial Framework Review is included in Attachment 1, and Figure 1 below shows the general 'schematic' representation of the various financial levers and trade-offs.

Figure 1 – Bay of Plenty Regional Council Financial Framework 'Schematic'



While the FFR Schematic is a useful overview, the FFR further developed funding hierarchies for both operating and capital expenses. There are some inherent interdependencies, such as the link between capital expenditure, reserve funds and investment income.

Using the Operating Expenses Funding Hierarchy, the general approach is to optimise investment and fee income, set rates as appropriate based on funding needs analysis and affordability, and fund any resulting deficit with reserve use if it is financially prudent to do so.

The Capital Expenses Funding Hierarchy outlines the general funding approach based on consideration of assets that can be divested, or by using borrowings/reserves depending on the current interest rate environment.

3. Draft LTP Budget overview

3.1 Operational Budget Changes and Deliberations Recommendations

The focus of Council's draft LTP is to deliver our Community Outcomes and improve the wellbeing of our communities. Ultimately Council spending is aimed at this.

Council has used a strategically driven process, where rates levels are determined at the end result of the process, rather than an up-front revenue target. Activity planning included a detailed review of discretionary/no-discretionary work, and defined level of service and performance measures. Major areas of activity and cost have been developed using a fit for purpose process similar to a zero-based budgeting process. Staff will present at the deliberations meeting the key example of this budgeting approach, including the efficiency savings which Councillors considered through the development of the draft LTP and those which are programmed for delivery in the near future.

As part of the review of the draft LTP Budget, and in preparation for Deliberations, there are, and will continue to be, a number of amendments and changes that are required to the ten year forecasts.

The changes to forecast operating and capital expenditure made after the adoption of the Consultation Document for public consultation in February 2021 have resulted from Council decisions, new information which has arisen, and internal reviews.

Two major economic assumptions have been updated in the draft LTP budget model. These are interest rates and inflation. Interest rate forecasts have increased, both for borrowing and investing. Higher inflation leads to higher costs over time, which generally leads to higher rates and other funding requirements. Section 7 explains the changes in Council's significant forecasting assumptions.

In addition, the accompanying deliberations reports set out requests for additional expenditure or potential funding as a result of Council's consultation on the draft LTP. As noted above, **for modelling purposes**, the figures presented, assume all of the staff recommended requests/potential funding are approved, and will be included in the draft LTP to be adopted on 24 June 2021.

Further details of all of the financial implications included in the deliberations reports is included in Attachment 2.

3.2 Draft LTP Budget Summary

The following Tables 1 and 2 provide summaries of all operational adjustments to the draft LTP Budget and of the financial implications included in the deliberations reports as detailed in Attachment 2.

Table 1 – Draft LTP 2021-2031 Forecast Operating Expenditure

Operating Expenditure	Year 1 2021/22 $000	Year 2 2022/23 $000	Year 3 2023/24 $000	Years 4-10 $000	Total $000
Total operating expenditure LTP consultation (LTP V3)	**158,753**	**156,586**	**152,116**	**1,083,103**	**1,550,557**
Net increase / (decrease) in opex since consultation	602	7,566	7,882	92,457	**108,507**
Total operating expenditure LTP deliberations (LTP V4)	**159,354**	**164,152**	**159,998**	**1,175,560**	**1,659,064**
Deliberations recommendations	3,065	3,212	3,131	23,062	**32,471**
Total revised operating expenditure LTP Adoption (LTP V5)	**162,420**	**167,364**	**163,129**	**1,198,623**	**1,691,535**

Table 2 – Draft LTP 2021-2031 Forecast Capital Expenditure

Capital Expenditure	Year 1 2021/22 $000	Year 2 2022/23 $000	Year 3 2023/24 $000	Years 4-10 $000	Total $000
Total capital expenditure LTP consultation (LTP V3)	**34,975**	**21,844**	**13,521**	**49,653**	**119,993**
Net increase / (decrease) in capex since consultation	395	(1,429)	1,407	24,702	**25,076**
Total capital expenditure LTP deliberations (LTP V4)	**35,370**	**20,415**	**14,929**	**74,355**	**145,069**
Deliberations recommendations	(1,024)	10,839	1,846	0	**11,661**
Total revised capital expenditure LTP Adoption (LTP V5)	**34,346**	**31,254**	**16,775**	**74,355**	**156,730**

The draft LTP budget adjustments and the deliberations recommendations are estimated to be funded by a variety of sources such as other revenue, fees and charges, general funds, targeted rates, reserves and borrowings, in line with the Revenue and Financing Policy.

In this report, staff seek an in-principle decision for the use of reserves to reduce the impact of rates increases over the first three years of the LTP assuming all staff deliberations recommendations are agreed in principle for inclusion in the draft LTP for adoption.

Because these estimates have been made on assumptions, final cash-flow/treasury calculations will need to be reviewed leading up to the preparation of the final version of the full LTP for audit, and adoption by Council at the June 2021 meeting.

4. Rates

The overview report to this agenda summarised the consultation process and includes the key themes emerging from the submissions received. The Consultation Document proposed a forecast 5.8% real general rates increase (on average $16 per property) in 2021/22 then under 3% per annum. A real targeted rates increase of 8.9%

was proposed in 2021/22. The cost per property depends on the services that property receives and its location.

The summary of submissions completed by Global Research shows 19 comments related to Rates and Expenditure. This summary notes that "*the majority simply stated that they oppose rates increases*". This feedback is also in the context of the number of submissions that supported options for the Consultation Topics that were for a higher level of service and higher rates. The summary of the submissions on financial issues is discussed further in Section 5.

4.1 General Rates

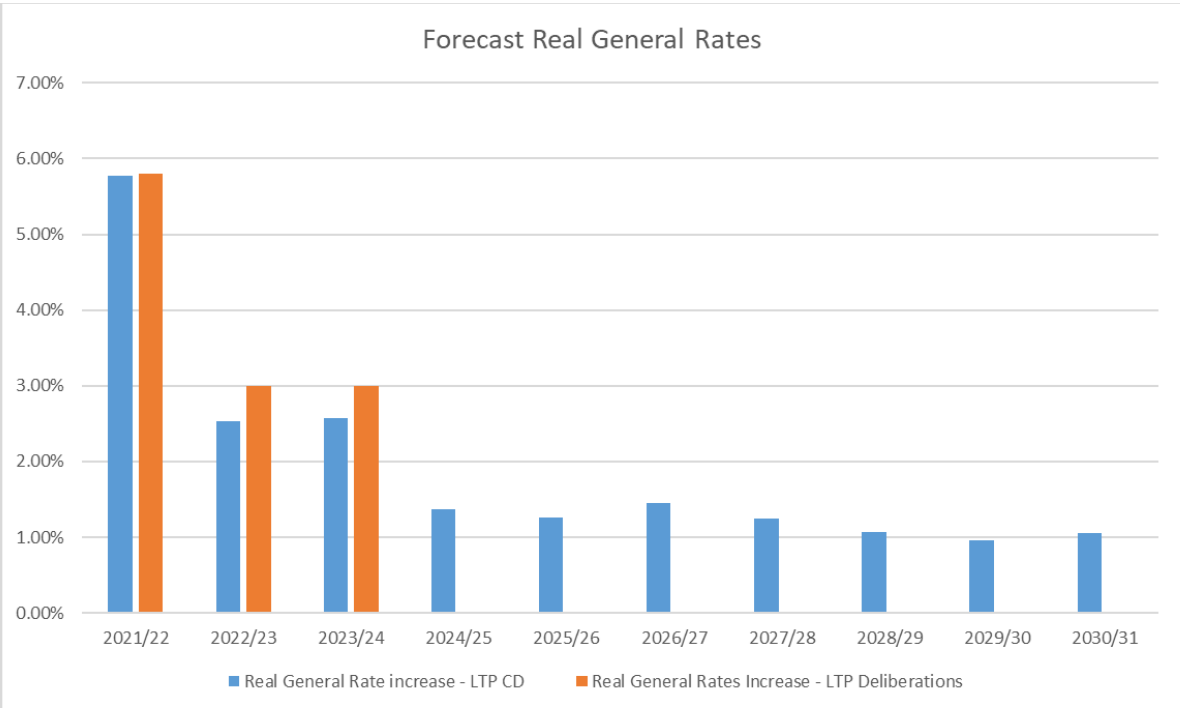
As a result of the major challenges that Council has on its horizon to address, Council proposed through consultation a real general rates increase in each year of the LTP.

As a result of the recommended budget changes set out in this agenda, Council's forecast real general rates for the next ten years are as follows:

- A real general rates increase of 5.8% in 2021/22, the level proposed for consultation.
- A forecast increase of 3% in LTP Years 2 and 3.
- A minimum level of 0% increase from LTP Year 4 to build resilience by forecasting moderate budgeted surpluses in the latter years of the LTP.

The updated LTP forecast for real general rates increases compared with the Consultation Document are shown in Figure 2 below.

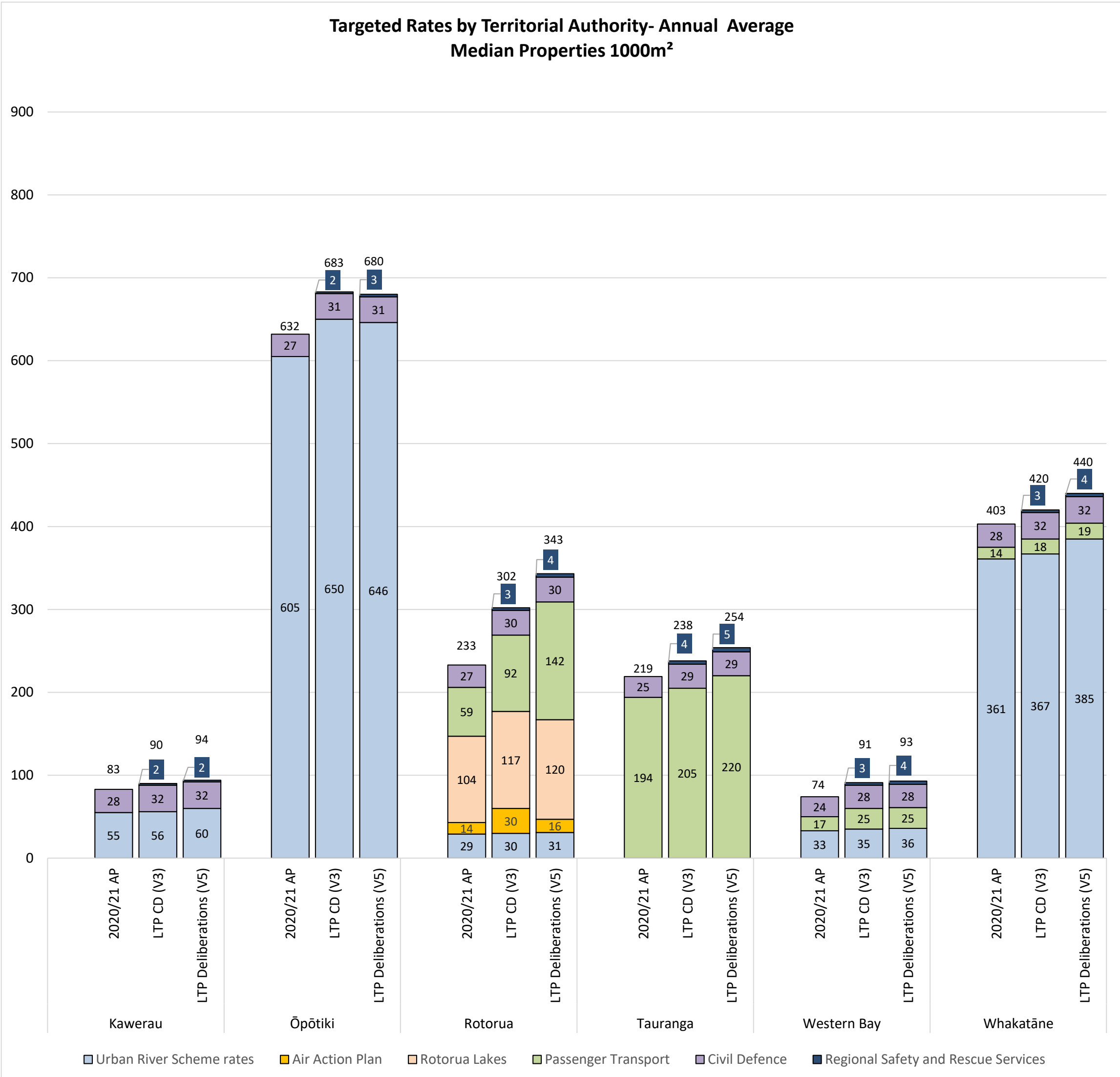
Figure 2 - Draft LTP 2021-2031 Forecast Real General Rates



4.2 Targeted Rates

The updated LTP forecast for targeted rates by territorial authority is shown in the Figure 3 below. This graph compares the 2020/21 Annual Plan targeted rates to the LTP Consultation Document, and the updated forecast.

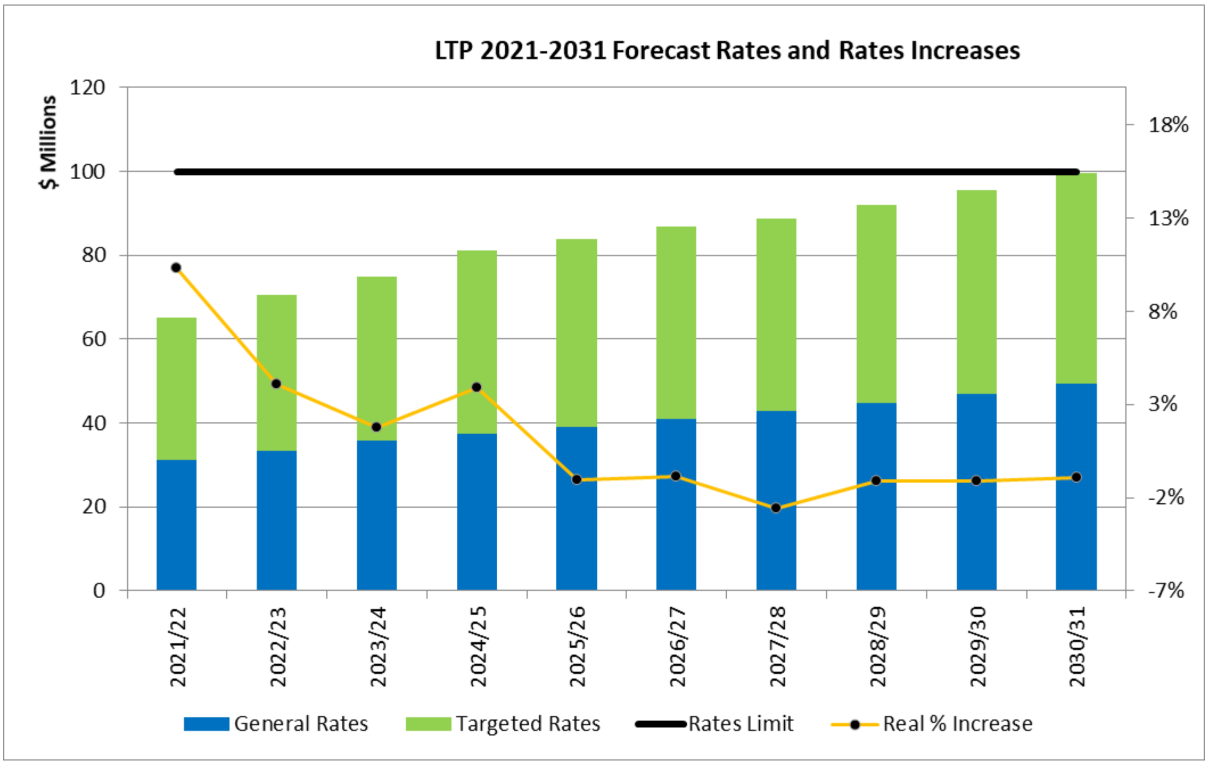
Figure 3 – Draft LTP 2021-2031 Targeted Rates Breakdown by District



4.3 Total Rates

The updated total rates forecast and a proposed limit of $100 million across all LTP years is shown in Figure 4 below. The forecast decreases from 2025/26 is due to the level of expenditure in targeted rates activity.

Figure 4 – Draft LTP 2021-2031 Forecast Total Real Rates



5. Submissions

As noted in Section 4 of this report, the summary of submissions completed by Global Research shows 19 comments related to Rates and Expenditure. This summary notes that "*the majority simply stated that they oppose rates increases*". This feedback is also in the context of the number of submissions that supported options for the Consultation Topics that were for a higher level of service and higher rates.

There were several more detailed submissions that lead to consideration of financial policy settings. Global research state that "*Over a third of the submissions dealt with issues of equity in the general rates system. Submitters used words like "burden" and "encumbrance" and suggested that rates distribution across districts was disproportionate.*" Whakatāne District Council and Ōpōtiki District Council both raised the topic of affordability and Ōpōtiki District Council added that "affordability and ability to pay does not appear to have been considered by BOPRC".

Council considered both equity and affordability in LTP workshops and through the development of the draft Revenue and Financing Policy. This included an assessment of affordability metrics like rates per capita, rates per GDP, and rates per income.

Apportioning rates revenue requirements can be seen as a zero sum game i.e. a decrease for one ratepayer must lead to an increase for other ratepayers. While the concerns raised are valid and understood, they have not raised information that has not already been considered by Councillors and therefore no changes are recommended to the draft policies at this stage.

Actions that could reduce the rates for Whakatāne and Ōpōtiki are:

- Reducing the Uniform Annual General Charge so higher value properties pay more. This would generally result in a movement of rates revenue from the Eastern Bay to the Western Bay. This has been discussed and modelled, and led to adverse overall affordability impacts, particularly for those on fixed incomes in the Western Bay.

- Increasing the general funding towards Flood Protection. This has been discussed and it was considered that the overall balance between the beneficiary/exacerbator principle and affordability impacts were appropriate. Flood repairs and rates impacts were a main consultation topic of Council's LTP 2018-2028.

Staff note that, in the case of financial hardship, rebates following central Government guidelines are available, and remissions/postponements of Regional Council rates are also available in line with each Territorial Local Authorities individual remissions and postponement policies.

One future policy tool that will be examined further is the use of rating categories. For example, many councils set rating categories like residential and commercial and different level factors of rates for these. Council has not used this approach to date, due to the complexities of using rating categories across multiple districts rating databases. In-sourcing rates collection will provide Council with an opportunity to consider this tool (as part of developing the Long Term Plan 2024-2034), as Council will have more direct data stewardship.

Importantly, the value to the region of utilising dividends from Quayside Holdings to offset rates and ensure they are affordable was raised by Whakatāne District Council, Bay of Plenty and Rotorua/Taupō Provinces of Federated Farmers, Tauranga City Council and Lake Rotoiti Community Association.

5.1 Community Funding Requests

Twenty eight funding requests were received during the Special Consultative Procedure. They are listed at Attachment 3 to this report, which includes detail about which report they are considered in and which funding source they are utilising.

Applicants were asked to apply using the Community Initiatives Fund application form to ensure that staff had sufficient information to assess the application. All applications received sufficiently early were subjected to impact assessment as per Council direction at their 1 April meeting. Where applications were received too late for this process, this is noted.

Four applications for Third Party Infrastructure Funding were also received, noting only one used the full application form. These applications are discussed the Regional and Sub-Regional Leadership deliberations report, and summarised in Attachment 3.

6. Council Controlled Organisations

Council has received and provided feedback on the draft Statements of Intent for Quayside Holdings Limited (Quayside) and the Toi Moana Trust. While this feedback included a range of issues related to governance, regional benefit, and transparency, the feedback directly related to financial settings was on the dividend expectations and borrowing arrangements.

6.1 Quayside Holdings Limited

In the Consultation Document, the Quayside dividend was originally set to increase from $33.1 million in 2020/21 to $40 million in 2021/22 and increasing thereafter by

3% per annum. In the updated draft LTP Budget, this has been re-set at $40 million for LTP Year 1, $40 million for LTP Year 2 then increasing at 3% per annum.

Further work is being progressed on Bay of Plenty Regional Council Group Financial Policies including distributions and reserving. In addition, Council transferred $10.75 million of tax losses to Quayside with an expected but not budgeted future cash benefit of $3 million, which is expected to be paid to Council when the tax losses are used and the financial benefit is realised. As noted, this net financial benefit has not been included in the current draft LTP Budget due to the uncertain timing.

Staff at Council and Quayside are working with the Local Government Funding Agency (LGFA) to transfer Council borrowing that is on-lent to Quayside to a direct borrowing arrangement between LGFA and Quayside.

6.2 Toi Moana Trust

The Toi Moana Trust continues to assume a return of 5% over the long-run, and the draft Statement of Investment Policies and Objectives is being modified to define the portfolio that is required to achieve this. This will likely include exposure to international equities to further diversify the investment and paying a cash dividend to Council based on dividends received and capital growth.

The initial value of the Toi Moana Trust is $45 million and projected returns on the Toi Moana Trust will be subject to some volatility in the short term.

7. Significant Forecasting Assumptions

Two major economic assumptions have been updated since the budget was prepared for Consultation. These are interest rates and inflation.

Interest rate forecasts have increased, both for borrowing and investing. In line with earlier assumptions, the cost of borrowing is still forecast to be the same or slightly higher than the return on term deposits. This means that there is no longer a short-term side benefit available by pre-funding capital expenditure. This is partially offset by Council being a net investor and gaining higher interest income in the mid to long term.

Tables 3 and 4 below shows the change of interest rate forecasts for LGFA borrowings and term deposits.

Table 3 – Draft LTP 2021-2031 LGFA Borrowing Interest Rate Assumptions

	Maturity								
	May-21	Apr-22	Apr-23	Apr-24	Apr-25	Apr-26	Apr-27	Apr-29	Apr-33
Consultation Assumption	0.50%	0.42%	0.41%	0.46%	0.52%	0.61%	0.70%	1.00%	1.34%
Current Forecast	0.53%	0.63%	0.74%	0.99%	1.26%	1.56%	1.79%	2.25%	2.76%
Increase	0.03%	0.21%	0.33%	0.53%	0.74%	0.95%	1.09%	1.25%	1.42%

Table 4 – Draft LTP 2021-2031 Term Deposit Investment Interest Rate Assumptions

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Term Deposits											
Consultation Assumption	0.50%	0.50%	0.50%	0.75%	1.00%	1.50%	2.00%	2.50%	3.00%	3.00%	3.00%
Current Forecast	0.75%	0.85%	0.95%	1.15%	1.15%	1.65%	2.10%	2.35%	2.85%	2.85%	2.85%
Increase	0.25%	0.35%	0.45%	0.40%	0.15%	0.15%	0.10%	-0.15%	-0.15%	-0.15%	-0.15%

Council used the BERL COVID-19 scenarios produced in October 2020 to forecast inflation rates. Based on the mix of industry groups in the Bay of Plenty, it was assumed that that 'stalled recovery' scenario was most appropriate because of the impacts on the tourist economy and uncertainty in the import/export sectors. Staff have sought updated advice from BERL on which scenario is currently most appropriate for the Bay of Plenty region.

Based on this advice, the inflation assumption has been updated to follow the 'faster recovery' scenario from LTP Year 2 based on progress with managing COVID-19 outbreaks, vaccine development and actual economic results. Higher inflation leads to higher costs over time, which generally leads to higher rates and other incomes. However, this inflation increase does not apply to forecasts for Quayside dividend which was already forecast at 3% per annum.

Table 5 below shows the change in the inflation assumption for general costs. The cumulative impact is that costs in LTP Year 10 have been inflated by 37.5% compared to 27.5% under the prior assumption.

Table 5 – Draft LTP 2021-2031 Inflation Rate Assumptions

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Consultation Assumption	2.4%	2.4%	2.2%	2.4%	2.5%	2.3%	2.5%	2.6%	2.7%	2.6%
Current Forecast	2.4%	3.0%	3.2%	3.2%	3.3%	3.2%	3.4%	3.5%	3.6%	3.6%
Increase	0.0%	0.6%	1.0%	0.8%	0.8%	0.9%	0.9%	0.9%	0.9%	1.0%

8. Reserves

8.1 Regional Fund Reserve

The Regional Fund is a general reserve which generates investment income. This has been included within the financial forecasts prepared and presented in this report. There is no specific policy relating to this fund, however, as Council determines the requirement to fund expenditure from reserves rather than through other sources, this reserve will be used.

The expected movement in the balance of this reserve over the first three years of the LTP, assuming Council approve the deliberations recommendations, is shown in Table 6 below.

Table 6 – Draft LTP 2021-2031 Forecast Regional Fund Reserve

Regional Fund Reserve	**Year 1 2021/22 $000**	**Year 2 2022/23 $000**	**Year 3 2023/24 $000**
Forecast opening balance	**34,379**	**24,273**	**14,627**
Forecast deposits	6,086	7,551	7,730
Forecast withdrawals	(16,192)	(17,197)	(7,542)
Forecast Closing Balance	**24,273**	**14,627**	**14,815**

At the beginning of the 2020/21 financial year, there was a Regional Fund reserve balance of $32.7 million. As shown through the in-year monitoring at month nine, this reserve is forecasted to be $34.4 million as at 30 June 2021.

Council has approved the following spending from the Regional Fund reserve in the draft LTP budget:

- Ōpōtiki District Council Harbour Transformation Project - $20 million in total across LTP Years 1-2
- Western Bay of Plenty Transport Systems Plan - $6.3 million in total across LTP Years 1-3
- Lake Tarawera Wastewater Reticulation - $750,000 in total in LTP Year 1
- Rotorua Lakes Land Use Change Incentives - $14.7 million in total in LTP Years 1-6

With the assumption that every deliberations report recommendation will be approved, an average of $2.6 million per annum (a total of $8 million) of Regional Fund reserve balance would be needed to deliver a real general rates rise in LTP Year 1 of 5.8%, and 3% in LTP Years 2 and 3.

With this assumed level of forecast contributions and spending from the reserve over the next three years, it is expected that the Regional Fund reserve at the end of 2023/24 will be $14.8 million.

8.2 Toi Moana Reserve

The Toi Moana Reserve is a $45 million general reserve which generates investment income. This revenue from this reserve has been included within the financial forecasts prepared and there is no forecast spending from this reserve in the draft LTP.

8.3 Equalisation Reserve

At the end of the 2020/21 year, there was a balance in the Equalisation Reserve of $4.8 million. Council set a 0% real general rates increase for 2020/21 to minimise the economic impacts of Covid-19 by using $4.7 million of the available balance leaving an unallocated amount of approximately $100,000. Based on month nine monitoring results for the 2020/21 financial year, this reserve is forecast to be $1 million as at 30 June 2021.

9. Treasury Budget Settings

Council's treasury advisor Bancorp has provided updated Treasury advice based on the economic outlook discussed above and other factors in confidential Attachments 4 and 5.

The first piece of advice is related to taking out additional borrowing to pre-fund capital expenditure and the opportunities for short-term arbitrage. In summary, there is unlikely to be any short-term opportunities available and there is no material advantage to borrowing instead of using Council's Asset Replacement Reserve in the short term.

The second piece of advice relates to long-term borrowing. In summary, Council has the option to either repay borrowing or invest the Asset Replacement Reserve in higher-yielding long-term investments until they are required for capital expenditure or for debt retirement.

Long-term investments can achieve higher returns than short-term investments (i.e. term deposits) because Council can 'look through' short term fluctuations in asset values. This can return an overall positive carry in the long-term. Bancorp proposes placing available funds in an income generating fund, and this is because the Council Group already has exposure to equity investment through Quayside and Toi Moana Trust. For modelling purposes, the assumption is that Toi Moana Trust is a suitable investment option to term deposits pending further due diligence.

Staff have assessed reserves that may be available for longer-term investment, which is primarily the Asset Replacement Reserve (pending policy work and Council direction on using its other general reserves to invest for Regional Benefit).

In the draft LTP, investing in the Toi Moana Trust is forecast to return 5% over the long run. Over and above the cost of borrowing, modelling shows that these investments could create a positive return to help offset the cost pressures noted in this report including inflation and rising interest costs.

Staff recommend Council delegate to the Chief Executive, the authority to invest additional funds in to a long-term investment in line with Council's Treasury Policy parameters.

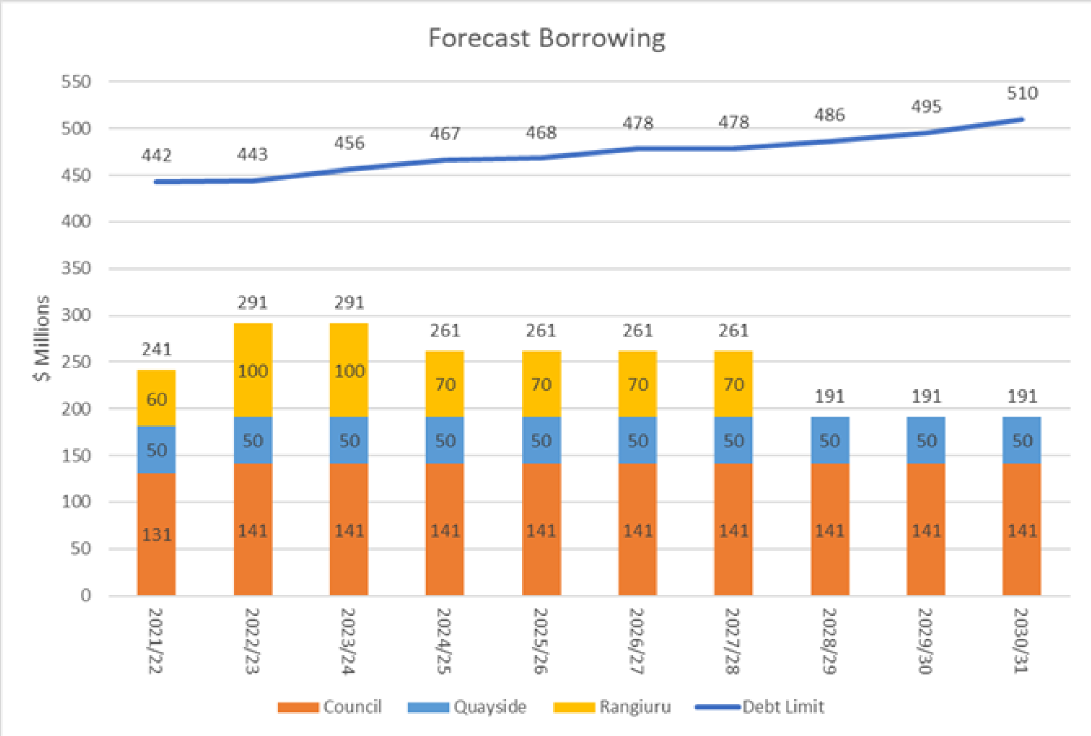
9.1 Treasury Recommendations

Based on this analysis, staff are recommending the following:

- Use existing LGFA pre-funding as the first source of capital funding, followed by the accumulated Asset Replacement Reserve, and new borrowing of $10 million for new capital items.
- New borrowing of $10 million for Ford Road Pump Station $8 million and $2 million for Sustainability Initiatives funding in LTP Year 2, if Council approve the recommendations.
- Council borrowings start at $131 million, which is $50 million lower than consultation due to the repayment of short-term debt in April 2021, then increases to $141 million from 2022/23 onwards.
- $100 million of new borrowing for Quayside for the Rangiuru development in addition to the current $50 million on-lending facility.
- Staff to continue to work with the LGFA to transfer Quayside borrowing from on-lending to direct borrowing. This is not shown in the financial modelling due to uncertainty of timing and due-diligence on requirements to be completed.
- The Perpetual Preference Share issue of $200 million is assumed to remain in place with Quayside.

As a result of these settings, the forecast borrowing profile is shown in Figure 5 below.

Figure 5 – Draft LTP 2021-2031 Forecast Borrowing



Staff also recommend that Council:

- Continue to hold sufficient cash and term deposits for cash flow purposes.
- The initial investment of $45 million in the Toi Moana Trust remains in place (i.e. no capital withdrawals during the next ten years).
- Delegate to the Chief Executive, the authority to invest some Asset Replacement Reserve funds that are available for the long term into the Toi Moana Trust to increase investment income.
- The Regional Fund reserve to accumulate internal loan repayments for new expenditure or debt retirement. The Regional Fund reserve balance is forecast at $14.8 million by the end of LTP Year 3. This is assumed to be invested in term deposits so that amounts remain available each year.

This treasury profile results in net income increasing from $1.75 million in LTP Year 1 to $4.3 million in LTP Year 10.

Use of the reserves to fund unbudgeted projects will reduce the financial return, however, this is not precluded as investment in strategic projects may provide a greater value of regional benefits.

9.2 Financial Strategy and Strategic Initiatives

Council also has the option to further use its balance sheet to provide for strategic investments to respond to major challenges where the expenditure requirements and timings are uncertain. This effectively allows for multi-year budget appropriations and avoids constraining strategic decision making to a year-by-year basis.

The potential use of balance sheet levers to fund strategic initiatives, like Regional Spatial Planning and Third Party infrastructure Funding requests, is discussed in the "Regional and Sub-Regional Leadership" deliberations report.

The figures presented in this report are based on the assumption that all recommendations are accepted, i.e. no funding is approved for third party infrastructure at this time. Staff are to progress principles and a policy for regional benefit investment in preparation for regional spatial planning implementation.

10. Considerations

10.1 Risks and Mitigations

Through LTP 2018-2028, Council set a balanced budget except for major one-off third party infrastructure grants. Council has consulted on having an unbalanced budget in the draft LTP 2021-2031 primarily due to reserve contributions to third party infrastructure and the Western Bay of Plenty Transport System Plan.

If all deliberations recommendations are accepted, LTP 2021-2031 is likely to require an unbalanced budget of $24.7 million over the first three years. As noted above, $20 million of this is the contribution to the Ōpōtiki Harbour Transformation Project.

Councils are required to set a balanced budget unless they resolve that it is financially prudent not to do so. Staff note that this unbalanced budget is funded from accumulate savings and that the Ōpōtiki Harbour Transformation Project is budgeted as a grant i.e. recovery of funds is not budgeted for.

In addition to the reserves held by Council, Quayside's non-port investments are expected to increase from $380 million to $700 million over the next ten years. This increased value generates profits to fund the dividend to Council, and is a source of financial resilience and assists to offset the forecast unbalanced budget at a Bay of Plenty Regional Council Group level.

10.2 Climate Change

This paper addresses financial implications of decisions and how to fund the Council's programme of work and has no direct implications for Climate Change. Climate Change implications are raised in the reports directly related to Council service delivery as appropriate.

10.3 Implications for Māori

This paper addresses financial implications of decisions and how to fund the Council's programme of work for the next ten years and may broadly have implications for Māori through our rating system.

Māori are disproportionately highly represented in communities and demographics that may be impacted by rates affordability and are highly impacted by inflation. The Covid-19 pandemic had, and continues to have, an impact on the economy and Māori community particularly where jobs have been lost.

The Resource Management Reforms, including national policy statements require greater participation by Māori in decision making. The specific matters relating Māori participation, capacity and capability as per section 81 (1)(b) of the Local Government Act 2002, are addressed in the Māori Partnerships deliberations report in this agenda.

10.4 Community Engagement

	CONSULT Whakauiuia	To obtain input or feedback from affected communities about our analysis, alternatives, and/or proposed decisions.

Council has used a full special consultative procedure for the LTP. Submissions related to financial matters are outlined in Section 5.

10.5 Financial Implications

This paper outlines the overall forecast financial implications for LTP 2021-2031 deliberations to provide context for decision making on individual reports and recommendations. Details of the staff recommendations for the deliberations meeting are included in Attachments 2 and 3.

One of Council's Strategic Priorities is 'Making the best use of our resources'. This goal is to ensure we achieve the best possible outcomes for our communities without creating an inequitable financial model.

Council has conducted a comprehensive Financial Framework Review, at a level of detail greater than anything done in the past decade. The FFR has explored the implications of altering how we fund our activities and this has resulted in changes to our planning approach with Quayside Holdings Ltd and enhanced treasury management practices.

Council's budgeting approach for its major activities has included key aspects of a full zero based budgeting approach and a full review of performance measures. The review of Council's Revenue and Financing Policy included analysis of rates affordability, benchmarking with other Regional Councils, and consideration of whether to alter any of the key revenue assumptions and ratios.

While Council has a range of funding and financing tools that provide the ability to deliver higher levels of service, continuing to make prudent decisions to fund high-quality/high-impact initiatives will ensure that Council remains in a strong and resilient financial position in the present and for the future.

Details of the staff recommendations for the deliberations meeting are included in Attachments 2 and 3 to this report. Staff are seeking confirmation of funding in the draft LTP - Maori Engagement in Freshwater and Regional Safety and Rescue Services. Staff are recommending new funding in the draft LTP for a Public Transport region-wide fare free schools trial (urban services during arrival and departure times) noting the draft LTP Budget includes the impact of fare-free foregone for the current Tauranga schools fare free trial.

11. Next Steps

The draft LTP 2021-2031 including the Financial Strategy, Revenue and Financing Policy and Treasury Policy will be updated following direction from Council at the deliberations meeting and will undergo a final external audit before being presented for adoption in June 2021.

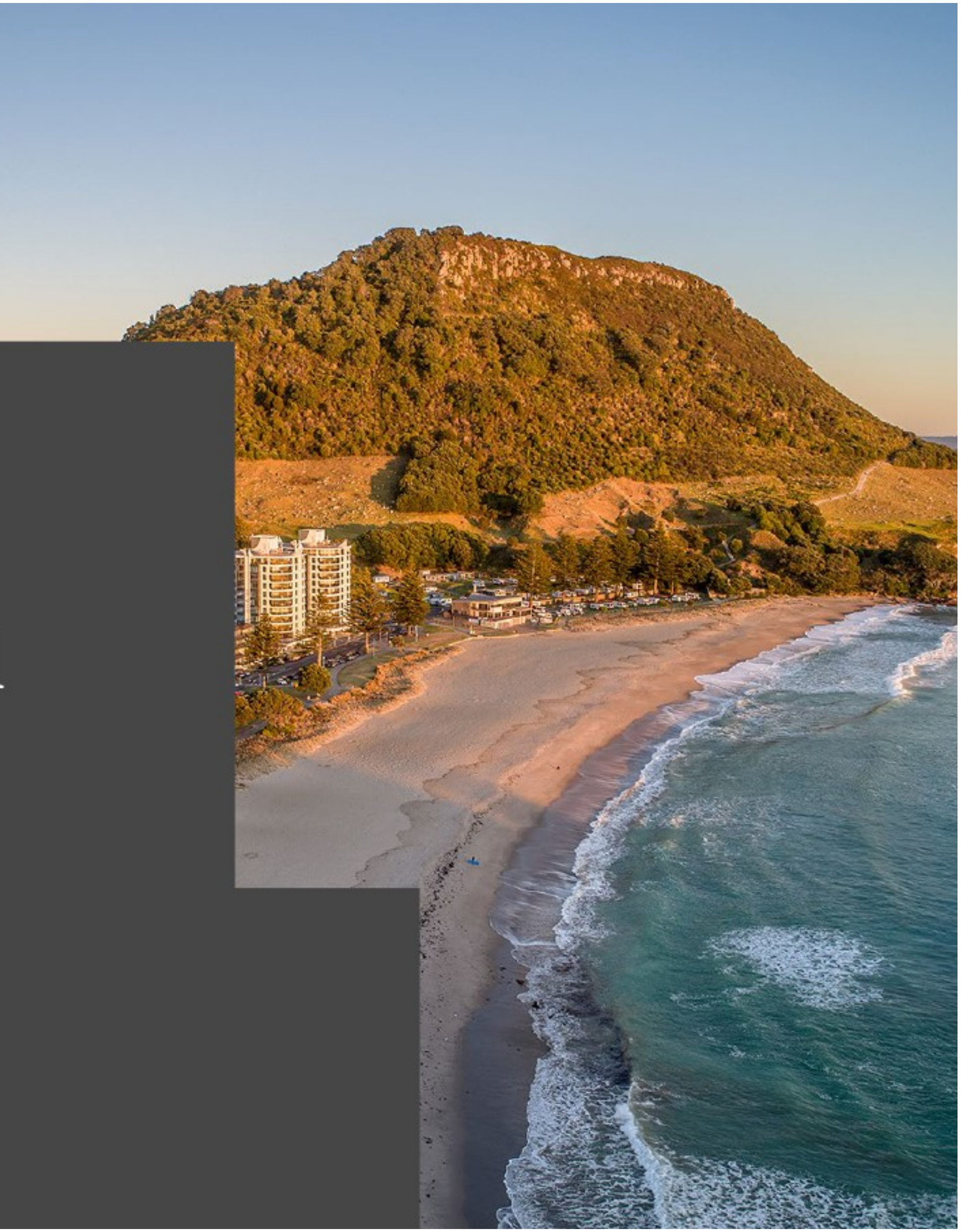
Attachments

Attachment 1 - PwC BOPRC Summary Financial Framework Review March 2021 ⇩
Attachment 2 - BOPRC LTP 2021-2031 Summary of Deliberations Recommendations Budget Changes ⇩

Attachment 3 - BOPRC LTP 2021-2031 Schedule of Funding Applications and Staff Recommendations ⇩
Attachment 4 - BanCorp Pre-funding Strategy (Public Excluded) ⇩
Attachment 5 - BanCorp Borrowing Strategy (Public Excluded) ⇩

Bay of Plenty Regional Council

Summary Financial Framework Review
March 2021



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pwc

24 March 2021

In accordance with your instruction as confirmed in our letter of engagement dated 8 May 2020 (the Contract), we present a summary of the Financial Framework Review (Summary Report) prepared by us to assist the Bay of Plenty Regional Council (BoPRC) in its preparation of the 2021-2031 Long Term Plan (LTP) and associated Financial Strategy.

This Summary Report should be considered only in its entirety.

This report was prepared solely to assist BoPRC in assessing the funding and balance sheet options considered and is not to be relied upon for any other purpose. We consent to your providing copies of this Summary Report to third parties only in its entirety and on the basis that, to the fullest extent permitted by Law, we accept no duty of care to any such party in connection with the provision of this Summary Report and/or any related information or explanation (together the Information). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation negligence or otherwise) and to the extent permitted by applicable Law, we accept no liability to any third party and disclaim all responsibility for the consequences of any third party acting or refraining to act in reliance on the information.

Notwithstanding the above, our consent to your distributing this Summary Report to third parties is given solely on the basis that you agree that, in the event such release leads to our incurring any costs or obligations to such third parties, we will rely on the indemnities which you have provided to us.

In preparing this Summary Repot we obtained information from a variety of sources. While we have analysed financial information, we have not undertaken an audit or verified this information, and will not accept any responsibility for any errors contained in the information provided. Accordingly, we accept no responsibility and make no representations with respect to the accuracy of or completeness of any information provided to us, except where otherwise stated and no assurance is given. Further detail on our key terms of business are provided at Appendix 1 of this Summary Report.

Yours faithfully,

PricewaterhouseCoopers

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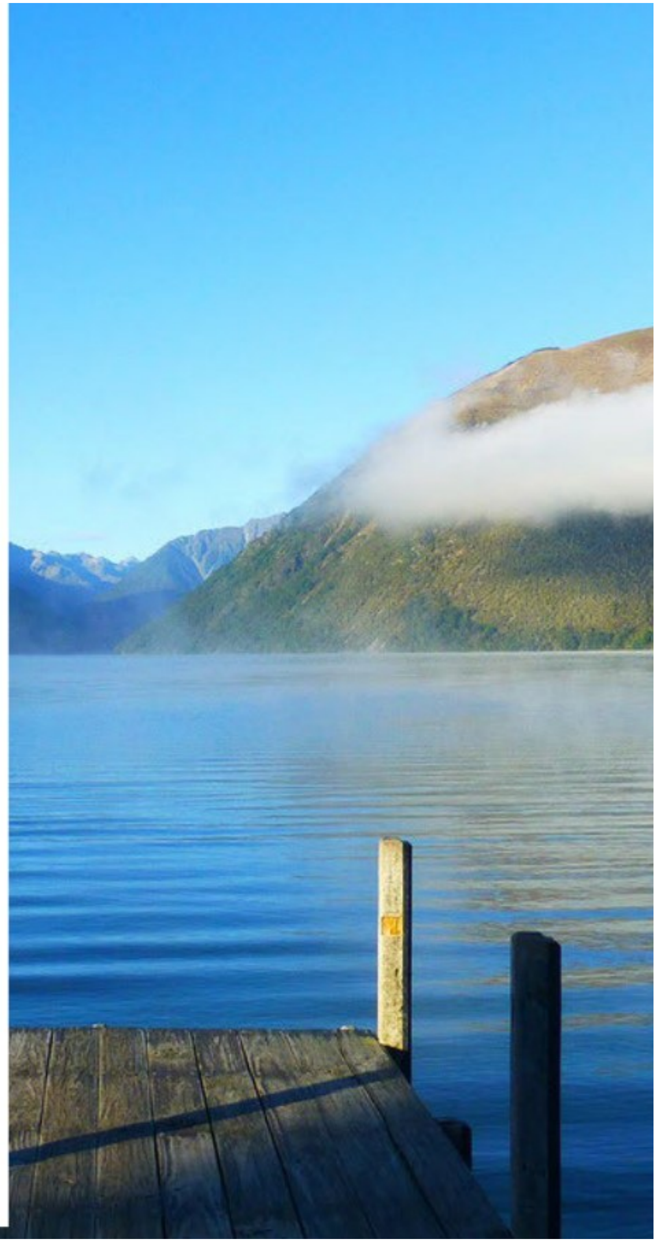
Contents



Introduction

Council is undertaking a review of its Financial Strategy as part of the 2021-2031 LTP process. The focus of this paper is to explore funding and balance sheet options associated with the Financial Strategy.

Stage One: Stocktake

Scope

- Document current 'financial framework'.
- Identify issues arising from the current framework.
- Identify options to be analysed.

Method

- Desktop review, based on literature and discussions with BoPRC.
- Stakeholder workshops to help identify current issues.
- Workshop with BoPRC Management to agree Stage Two scope and plan.

Current Stage

Stage Two: Analysis

Scope

- Evaluate the relative merits of each option.
- Prepare 'Financial Framework Review' paper.

Method

- Desktop analysis.
- Workshop with BoPRC management to discuss initial findings.
- Workshops with stakeholders, as necessary, to discuss findings.

Stage Three: Consultation and Implementation (if required)

Scope

- Assist BoPRC to consider practical approaches to implementing the recommendations.

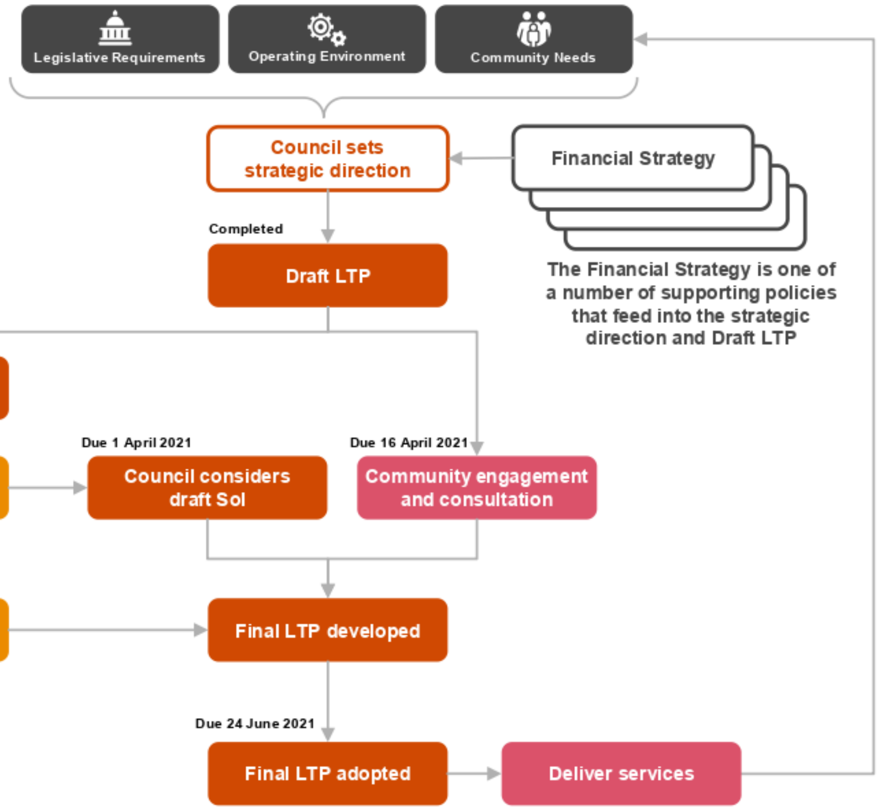
Method

- Working alongside BoPRC management to implement the agreed Financial Strategy documentation.

Important note: this Summary Financial Framework Review (FFR) is based on the FFR paper developed for workshops in October and November 2020, and is therefore based on the information available at that time.

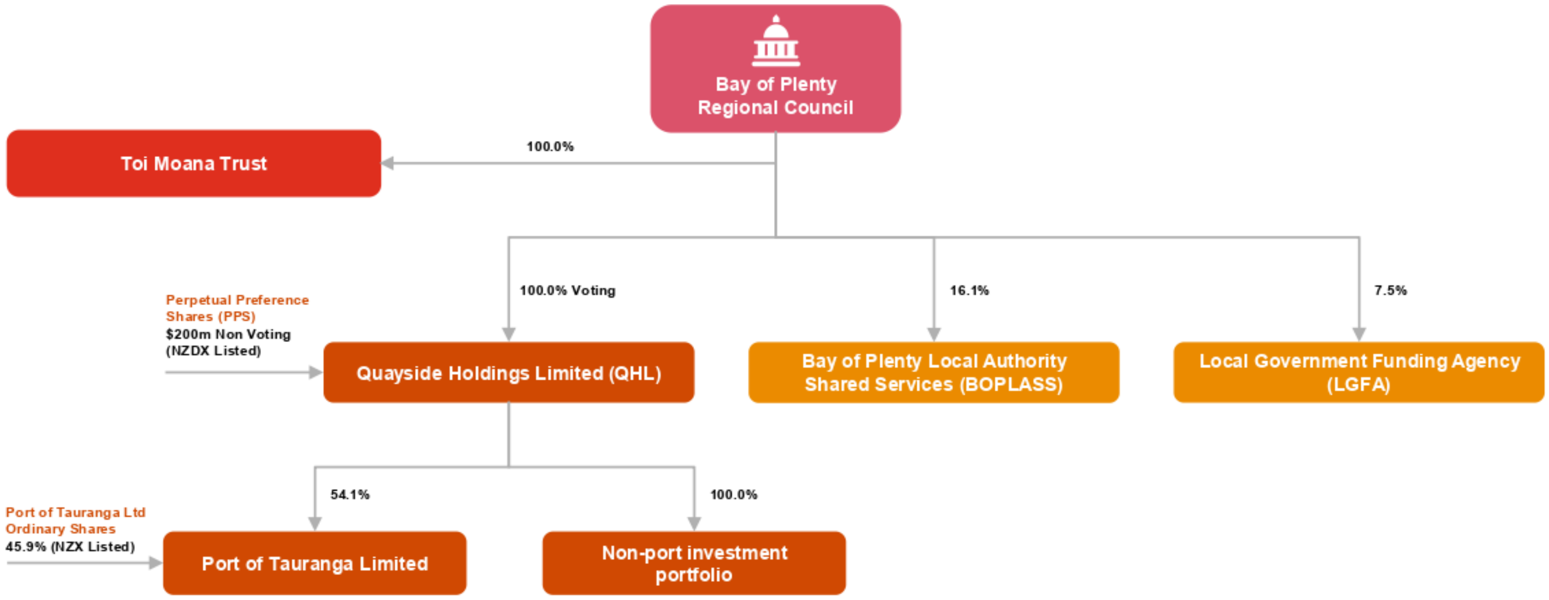
The Long Term Plan process

The Financial Strategy forms part of the overall strategic direction for the LTP, one outcome of which has been the Quayside Holdings Limited (QHL) Statement of Expectation.



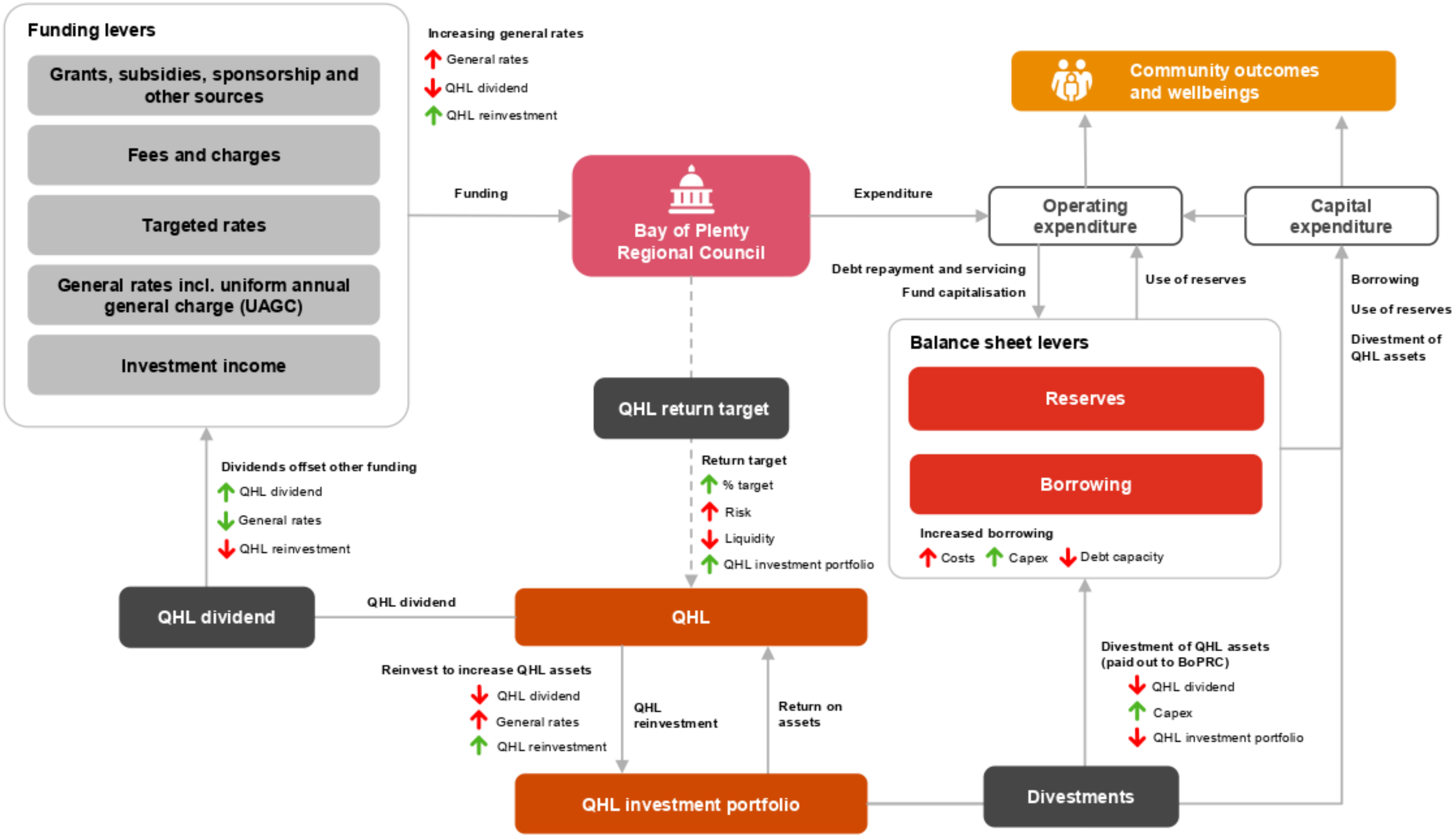
The Bay of Plenty Regional Council Group

The Bay of Plenty Regional Council Group consists of several entities that complement the services that Council delivers directly.



Bay of Plenty Regional Council 'levers'

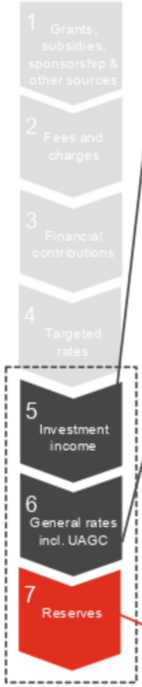
The Council has a number of funding and balance sheet 'levers' which it can flex to achieve optimal outcomes for its community and the region.



The funding and balance sheet levers available

There is a hierarchy, or waterfall, of funding sources for each expenditure requirement. We consider each lever highlighted in more detail as separate sections of this document.

Operating expenses funding hierarchy



General funds (excl. tagged reserves)

Investment income

Investment income incorporates a number of levers as set out below. QHL manages BoPRC's capital investment portfolio, which generates its investment income.

Governance, policies and processes are important to specify how dividends are paid.

Lever	Period set	How set
03. Quayside Returns on Non Port Assets	LTP	Statement of Expectation, leading to Statement of Intent and QHL Statements of investment policy and objectives (SIPO)
04. Dividends	LTP	Statement of Expectation, leading to Statement of Intent and QHL SIPO
05. Special Dividends	Annual, plus LTP years	Statement of Expectation, leading to Statement of Intent and QHL SIPO

General rates

General rates contribute ~20 to 25% of total revenue. As a proportion of funding, general rates contribute a smaller proportion than other Councils, however affordability is a key consideration for any change to rates.

Lever	Period set	How set
06. General rates	Annual, plus LTP years	Council Financial Strategy; LTP; Annual Plan

Reserves

Council uses these funds for the purpose that these were created for. These provide Council liquidity and resilience (which is important given funding can be volatile).

Lever	Period set	How set
07. Reserves (Council)	LTP	Council Financial Strategy
07. Reserves (QHL)	LTP	Statement of Expectation, leading to Statement of Intent an QHL SIPO; Council Financial Strategy

Capital expenses funding hierarchy

General funds (excl. tagged reserves)

Asset recycling

Recycling of funds received from the sale, or partial sale of assets.

Lever	Period set	How set
10. PoT shareholding	LTP	Statement of Expectation, leading to Statement of Intent and QHL SIPO; Council Financial Strategy

Reserves

Council maintains reserve funds tagged for capital expenditure.

Lever	Period set	How set
07. Reserves (Council)	LTP	Council Financial Strategy
07. Reserves (QHL)	LTP	Statement of Expectation, leading to Statement of Intent an QHL SIPO; Council Financial Strategy

Borrowing

Council funds from the most efficient source, which may include debt (particularly given current borrowing rates).

Lever	Period set	How set
09. Debt Capacity	LTP	Council Financial Strategy

Focus of today

- Funding lever discussed in this document.
- Balance sheet lever discussed in this document.

Assessment criteria

This review is intended to consider all levers in a way that maximises the benefits to current and future communities and the environment, in a clear and transparent way.

1 Levers

Funding levers

01 Rates | 02 Investment income and dividends

Balance sheet levers

03 Reserves | 04 Borrowing | 05 Assets

We cover…

What is it? | How does it work? | Why is it important? | How is it set? | What does it fund? | Comparison to other councils | Sensitivity analysis

The financial levers are assessed against the Council's four "Community Outcomes".

2 Assessment criteria

Community Outcomes

These achieve the Four Wellbeings defined in the Local Government Act (LGA).

A healthy environment
Maintain and enhance our air, land, freshwater, geothermal, coastal resources and biodiversity.

Freshwater for life
Maintain and improve the quality and quantity of the region's freshwater resources.

Safe and resilient communities
Resilience to natural hazards so that our communities' safety is maintained and improved.

A vibrant region
Support economic development, understanding the Bay of Plenty region and how we can best add value.

How this is applied to the funding and balance sheet levers

3 Assessment of options

Community impact	Review of what expenditure is funded by each lever. Community impact of different levels of service.
Inter-connection	How other levers are impacted if a levers is adjusted higher or lower. eg levels of service, increased general rates etc.
Trade-offs	Pros and cons of the options available to Council.

Funding Principles

When considering how to set each lever, it is useful to base an assessment within some general principles. Principles can help guide an evaluation of alternative options.

What you told us…

General funding and balance sheet principles

Funding levers

- Equitable use of available funding sources
- User pays where appropriate
- Affordable for the community / investment income used to keep rates affordable
- Transparency and long term oversight over the Financial Strategy for the full Council Group

Balance sheet levers

- Management of the Council Group's balance sheet for the long term
- Efficient use of financing levers
- Financial resilience and self-insurance
- Intergenerational equity
- Port of Tauranga majority shareholding is a strategic asset

Legislative principles

Section 101 of the LGA describes how Council will use revenue and financing sources to fund its activities.

- Community outcomes the activity primarily contributes to
- Distribution of benefits between the community as a whole, any identifiable part of the community and individuals
- The period in or over which benefits are expected to occur
- The extent to which the actions or inactions of particular individuals or a group contribute to the need to undertake the activity
- The costs and benefits, including consequences for transparency and accountability, of funding the Activity distinctly from other Activities
- The overall impact of any allocation of liability for revenue needs in the community

2021-2031 LTP financial principles

Principle 1: Council balances operating expenditure and revenue except where an alternative approach is more financially prudent.

Principle 2: Council achieves the right mix to fund its activities, and keep rates, and fees and charges, affordable, fair and equitable <u>now and for the future.</u>

Principle 3: Council promotes effective and efficient use of resources to achieve better value for money.

Principle 4: Council creates resilience through robust and agile management practices which minimise or mitigate risk to achieving its financial objectives.

Principle 5: Council supports investment in solutions that are the most appropriate in the long term.

**changes from 2018-2028 LTP financial principles <u>underlined</u>.*

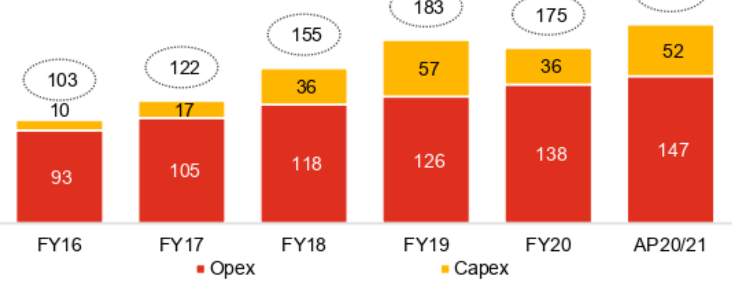
02. Background

Historical expenditure requirements

BoPRC spends its money on a range of operational and capital activities. Like other regional councils, operational spending makes up the majority of expenditure.

- Operational expenditure has increased in recent years, from $105m in FY17 to $138m in FY20. We understand that this comprises both one-off items and permanent increases.
- Capital expenditure varies from year to year. Increases in capital expenditure in FY18 and FY19 followed the 2017 flood.
- BoPRC’s largest areas of expenditure are rivers & drainage, integrated catchments and transport. Other significant areas of spending are resource regulation, regional development and regional planning.

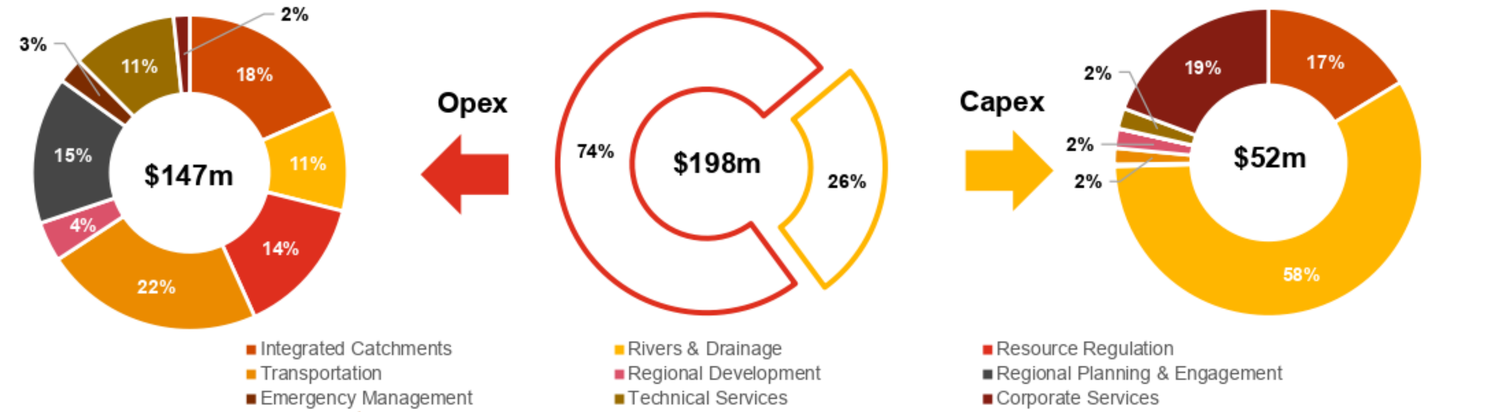
Operating and capital expenditure



Operating expenditure composition (AP20/21)

Operating and capital expenditure composition (AP20/21)

Capital expenditure composition (AP20/21)



Source: Annual Reports, Annual Plan 2020/21

Community outcomes

Certain activities are impacted more or less through the application of different levers. This will have flow on implications to the BoPRC's community outcomes.

	Operating Funding Uses by Activity (AP20/21)							Community Outcomes			
	General funds* excl. general reserves										
Activity	General Rates	Investment Income	Targeted Rates	Subsidies and Grants	Fees and Charges	Other	TOTAL	A healthy environment	Freshwater for life	Safe and resilient communities	A vibrant region
Integrated Catchments	24%	34%	14%	28%	-	-	100%	●	●		
Rivers & Drainage	12%	17%	61%	8%	-	2%	100%			●	
Resource Regulation	28%	39%	4%	-	25%	4%	100%	●		●	
Transportation	4%	5%	37%	39%	12%	4%	100%				●
Regional Development	41%	58%	-	-	<1%	-	100%				●
Regional Planning and Engagement	41%	59%	-	-	-	-	100%	●	●		●
Emergency Management	-	-	99%	-	-	1%	100%			●	
Technical Services	35%	50%	-	-	14%	1%	100%	●	●	●	●

*General funds are a combination of investment income (interest and dividends) and general rates (including UAGC) and general reserves – **the above excludes use of general reserves.**

>25% contribution

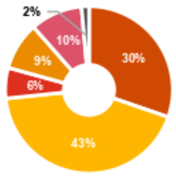
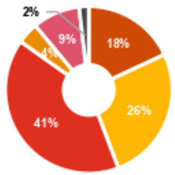
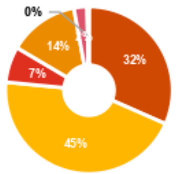
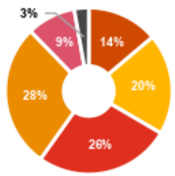
'Healthy environment' and 'freshwater for life' outcomes are highly reliant on general funds

Source: Bay of Plenty Regional Council, PwC Analysis

02. Background

Funding the community outcomes

Council spending is ultimately aimed at enhancing outcomes for its communities. Supporting the four Council 'community outcomes' are its statutory obligations to promote community wellbeing as well as He Korowai Mātauranga, a framework for enabling better relationships with tangata whenua and Māori communities.

Community outcomes	Description	Est. investment* (2020/21)	Est. funding sources* (2020/21)
A healthy environment	Maintain and enhance our air, land, freshwater, geothermal, coastal resources and biodiversity.	~$35m	
Safe and resilient communities	Resilience to natural hazards so that our communities' safety is maintained and improved.	~$35m	
Freshwater for life	Maintain and improve the quality and quantity of the region's freshwater resources.	~$25m	
A vibrant region	Support economic development, understanding the Bay of Plenty region and how we can best add value.	~$50m	

Source: Bay of Plenty Regional Council, PwC Analysis

- General Rates
- Targeted Rates
- Fees and Charges
- Investment Income
- Subsidies and Grants
- Other Revenue

Wellbeings

The Local Government (Community Well-being) Amendment Act 2019 has resulted in a change in the purpose of local government, to promote community wellbeing.

This means Council is responsible for improving the wellbeing of its communities across four key areas:

- Social
- Economic
- Environmental
- Cultural

He Korowai Mātauranga Māori

Council has developed He Korowai Mātauranga – a framework for enabling better relationships between BoPRC and tangata whenua and Māori communities across the region.

The framework, and in particular its seven principles and three strands, will form part of the process in establishing how community outcomes are prioritised and achieved.

*Operating expenditure and sources of operating funding

Bay of Plenty Regional Council
PwC

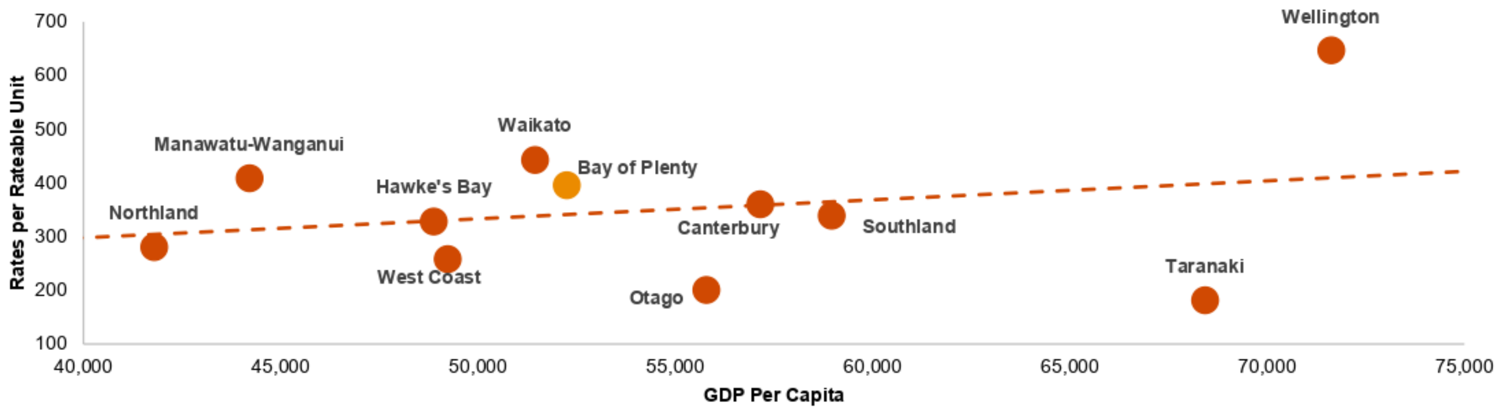
March 2021
13

02. Background

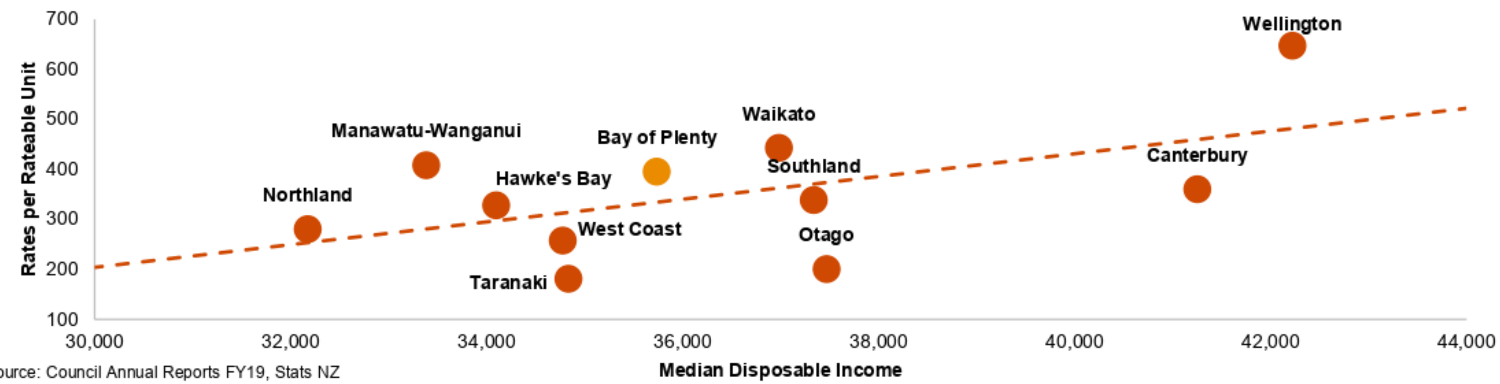
Rates affordability comparison

Council's FY19 rates affordability is broadly in line with other regional councils when GDP per capita and disposable income are considered.

Rates per Rateable Unit and GDP per Capita (FY19)



Rates per Rateable Unit and Median Disposable Income (FY19)

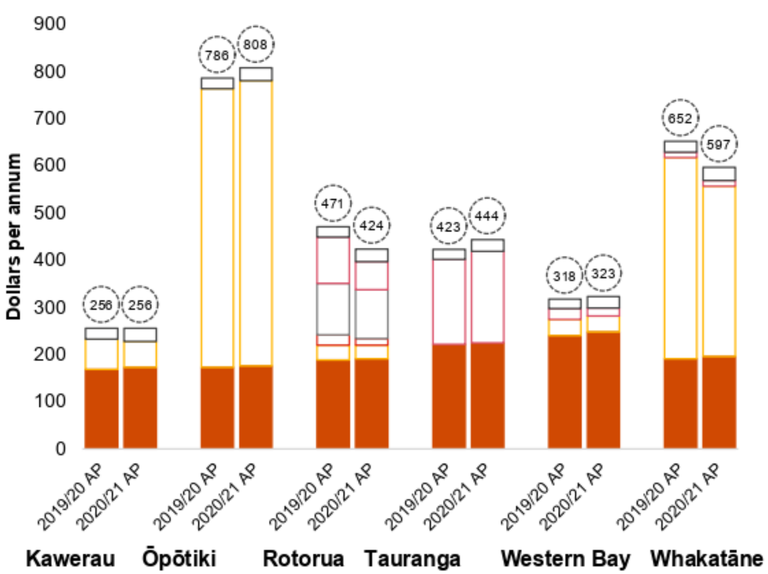


Source: Council Annual Reports FY19, Stats NZ

Rates affordability in the region (cont'd)

Council must consider the ability of ratepayers across the region to absorb rate increases when evaluating its approach to funding new expenditure.

Total BoPRC rates by territorial authority – annual average



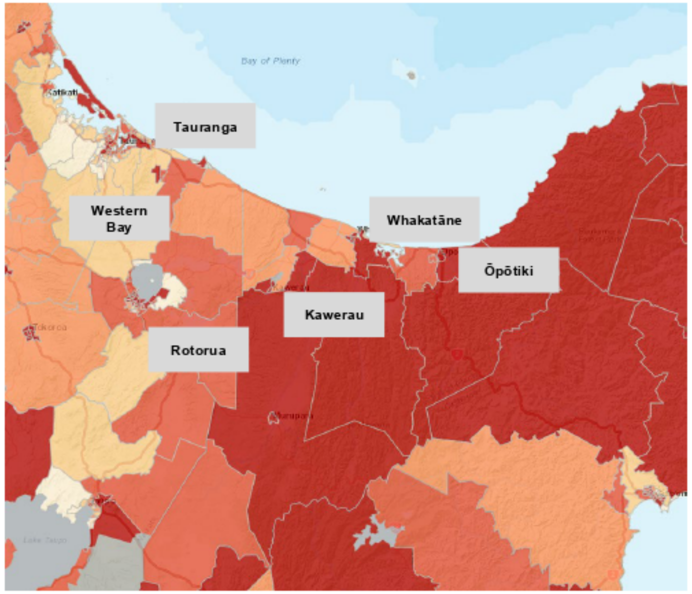
Source: Bay of Plenty Regional Council, Annual Plans

Chart key

AP = Annual Plan

New Zealand Deprivation Index

The Deprivation Index measures socioeconomic deprivation across New Zealand and is published by Massey University every five years.



Source: Massey University – Environmental Health Indicators

Across the Bay of Plenty Region, a high degree of relative deprivation is evident across the Eastern Bay of Plenty, particularly in the Kawerau and Whakatāne districts, and parts of Tauranga. This is important as it implies there may be a lower level of ratepayer capacity to absorb rate increases.

This should be considered when evaluating Council's future funding composition, particularly where a targeted rate may be used to fund a project that provides benefits to a specific community.

Quayside Returns on Non Port Assets

Key connected 'levers'

- ↑ % Return target
- ↑ Risk
- ↓ Liquidity
- ↑ QHL investment portfolio

What is it?

QHL currently manages ~$380m (as at 30 June 2020) of non-port investments, which generate a return that contributes to QHL's net cash profit.

As QHL's distribution target is based off a ratio of net cash profit, returns generated through QHL's non-port investments are distributed to Council (in the form of a dividend), which provides Council with an additional funding source.

Adjusting QHL's return targets will result in a reallocation of QHL's investment portfolio, which will affect the following:

- Quantum of annual return
- Volatility of annual returns
- Risk associated with the portfolio
- Capital growth of the investment portfolio.

Why is it important?

- Non-port returns contribute to the annual dividend made to Council, which subsidises the general rates requirement.
- **A 1% increase in the non-port investment cash yield (assuming the FY19 investment portfolio asset base) would be expected to increase the annual dividend by ~$3m. This would be equivalent to a 11% reduction in general rates revenue.**

How does it work?

- Council and QHL agree to a dividend profile every three years (ie to coincide with the LTP process), which is established as an annual absolute value.
- QHL's Statement of Investment Policies and Objectives (SIPO) and Statement of Intent (SoI) set a number of distribution and return targets, which are used when determining the annual dividend profile. Key metrics from the current SIPO are provided below (the SIPO will be updated following finalisation of the 2021/22 SoI):
    - Distribution target – 80% of QHL's cash surplus
    - Total return target – 7.5% per annum
    - Cash yield target – 3.5% per annum
- Adjusting the return targets will result in a reallocation of QHL's investment portfolio, and can change the focus of the portfolio. Increasing the total return target may be expected to increase the total return from Council's investment over the long term. However, it may lead to lower dividends given the interrelationship of capital gains and dividends.
- Higher return targets will also likely increase the level of risk, which may result in higher volatility and lower capital protection, but potentially improve intergenerational equity.
- Increasing the cash yield target is likely to improve QHL's capacity to pay dividends and reduce return volatility, however it is also likely to reduce the capital growth of the portfolio.

Quayside Returns on Non Port Assets (cont.)

QHL has a number of financial and non-financial portfolio objectives, which govern the management of its non-port investments. The asset allocation and return requirements imply a moderate to high risk tolerance.

FY21 portfolio objectives for non-port investments

Portfolio investment objectives	• Ensure the value of its assets are protected over the long term, grow appropriately, and generate income opportunities that can be distributed to Council. • To diversify non-port net cash profit to 30% by 2024. • Grow non-port assets from ~$380m to $700m by 2031. • Target distribution of 80% of QHL's net cash surplus to be paid by Council.
Constraints	• Investments excluded if an activity prevents Council from achieving its regional responsibilities. • Quayside Investment Trust setup as a PIE, to manage taxation and liquidity risk.
Benchmarks	• Performance target is 7.5% p.a. (five year rolling average) for the investment portfolio, set by the Board annually in the SoI (with a cash yield at 3.5%).

Moderate to high risk tolerance

QHL's asset allocation has a relatively low proportion of cash yielding assets, which implies a moderate to high risk tolerance.

A moderate risk tolerance balances the requirement to provide a yield to support current ratepayers against safeguarding assets for future generations.

Potential impact of increasing the return targets

Pros	Cons
✓ Reduces funding requirement from other sources such as general rates. ✓ Enables an increase in service levels. ✓ Can be used to reduce gross borrowings. ✓ Unlocks additional debt capacity under the LGFA's lending covenants. ✓ May improve rates affordability.	× May result in lower intergenerational equity (if cash yield is increased). × May limit QHL's capacity to invest in regional development. × May reduce QHL's ability to invest in the community, where returns are lower. × Risk of additional funding volatility, through increased volatility in QHL returns (potentially requiring greater reserves to be kept). × May slow QHL's ability to achieve its investment portfolio diversification objectives. × Greater reliance on dividends may reduce capacity to withstand high volatility, which will have ramifications on investment risk tolerance. × Less emphasis on capital protection, which may adversely affect future generations.

04. Dividends

Dividends

Key connected 'levers'

- ↑ QHL dividend
- ↓ General rates
- ↓ QHL reinvestment

What is it?

Dividends are the ongoing investment income BoPRC receives from its investment portfolio. This is predominantly distributions from QHL (and in particular from the PoT).

How does it work?

BoPRC and QHL agree BoPRC's dividend requirement every three years (ie to coincide with the LTP process). This requirement is an absolute value as opposed to a cash yield (eg 3.5% for the non-port asset investment portfolio), which is expressed as a target in the QHL SIPO.

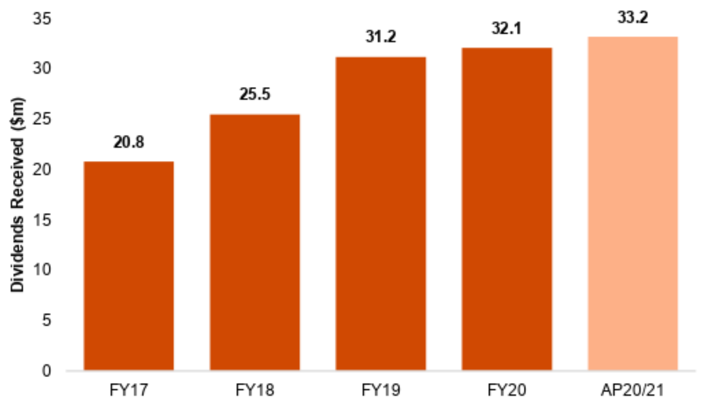
We understand the dividend QHL pays out to BoPRC is based on 80% of its estimated cash surplus. QHL has interpreted the definition of cash surplus to exclude any special dividends QHL receives and is after payments to Perpetual Preference Share (PPS) holders.

QHL's dividend payment requirements are published annually within their SoI. As payments are set every 3 three years, it can mean that payments in all periods do not align with the 80% of QHL's cash surplus target.

Why is it important?

- Dividends are primarily used by Council as a form of rates subsidisation. Dividends are expected to contribute ~24% of total revenue in 2020/21.
- The amount received by Council has an impact on rates affordability.
- **A 5% increase in the FY19 dividend BoPRC received from QHL would have generated an additional ~$1.6m. This is equivalent to a 6.4% reduction in general rates.**

QHL dividends received by BoPRC



Source: QHL Annual Reports, Annual Plan 2020/21

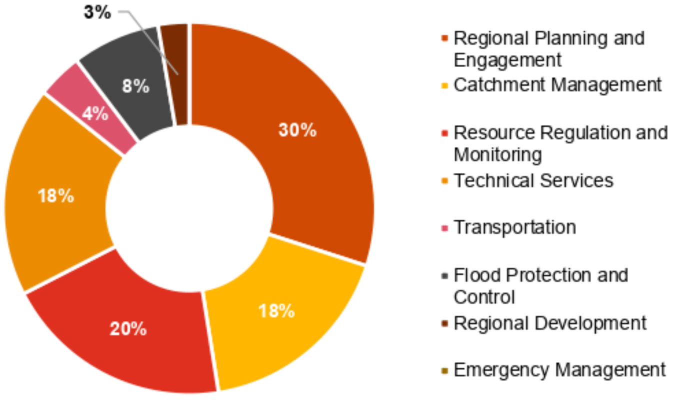
Dividends (cont.)

QHL dividends are used for purposes that provide broad benefits across the region. This aligns with the principle that all ratepayers should benefit from Council's investment portfolio.

Current uses of dividends

- **Rates:** dividends are used to reduce general rates. This is considered appropriate by Council as it ensures all ratepayers benefit from its investment portfolio.
- **Wellbeings:** applied to increase levels of service across the region to improve social, economic, environmental and cultural outcomes.
- **General funds:** dividends form part of Council's general funds (with general rates and investment returns).
- **Debt servicing:** investment income enables Council to sustain its gross borrowings by providing funds that can be used for debt servicing.
- **Reinvestment by QHL:** a portion of QHL's earnings that could be paid out to Council are retained by QHL. These funds are being used to grow QHL's non-port asset base.

BoPRC investment income allocation by activity (2020/21)



Source: Bay of Plenty Regional Council, PwC Analysis

Potential impact of increasing dividends

Pros	Cons
✓ Reduces funding requirement from other sources such as general rates. ✓ Increased direct Council control over its resources. ✓ Enables an increase in service levels. ✓ Can be used to reduce gross borrowings. ✓ Unlocks additional debt capacity on a BoPRC basis under the LGFA's lending covenants. ✓ May help to reduce any general rate affordability concerns.	× May slow Council's ability to achieve its investment portfolio diversification objectives. × Less cash retained by QHL, potentially impacting group reserving policy. × Higher dividends now may result in smaller payments in later years. × Possible requirement to review Council's investment risk tolerance given increased reliance on dividends. × Will result in lower portfolio valuations over time.

Special Dividends

Key connected 'levers'

- ↑ QHL dividend
- ↓ General rates
- ↓ QHL reinvestment

What is it?

Special dividends are discretionary distributions of earnings, typically due to strong financial performance.

How does it work?

In recent years, QHL has received special dividends from PoT. QHL has retained special dividends on the basis that they were largely financed by PoT borrowings and relate to a distribution of capital rather than distribution of income, and therefore should be excluded from the payout ratio.

A Special Dividend Policy would address how special dividends received by QHL (eg through its shareholding in PoT) were treated.

Why is it important?

While special dividends are typically uncertain, PoT's strong financial performance has resulted in PoT paying significant dividends over the past couple of years ($18.4m in FY18 and FY19).

As the beneficial owner, BoPRC may wish to have greater control over how special dividends are used.

Current uses of special dividends

- BoPRC does not currently rely on special dividends as a funding source, as they are uncertain and have not been received to date.
- Special dividends are currently treated by QHL as capital, and therefore not distributed to BoPRC.
- Typically, QHL reinvests proceeds in accordance with its Strategic Plan, SoI and SIPO.
- As special dividends are typically reinvested by QHL, future earnings from the associated investments are included within QHL's net cash profit, and therefore would be distributed to Council over time in accordance with its SoI targets.

Potential uses of special dividends

- Special dividends would be received (by BoPRC) as investment income and dividends, and therefore form part of general funds.
- General funds are typically applied where the benefits of the service are derived by the wider Bay of Plenty community (ie rather than specific beneficiaries/beneficiary groups).

Potential impact of establishing a Special Dividend Policy

Pros	Cons
✓ Opportunity to rebalance general funds to reduce reliance on general rates, which will in turn reduce the burden on ratepayers. ✓ Opportunity to increase expenditure on community services to improve community outcomes. ✓ Opportunity to reduce absolute cash yield requirement on QHL for other investments, which may enable QHL to increase its investment in regional development.	× May prevent QHL from reinvesting special dividends. × May reduce the balance between general and targeted funding, if additional revenue is offset by a reduction in targeted funding. This may reduce the alignment of costs to beneficiaries. × Special dividends are not typically a reliable funding source. × May result in increased BoPRC funding volatility.

06. General Rates

General Rates

Key connected 'levers'

- ↑ General rates
- ↓ QHL dividend
- ↑ QHL reinvestment

What is it?

General rates are a broad based tool for generating revenue. They are typically a highly reliable revenue stream for council.

How does it work?

General rates apply to all rateable land in the region and can be applied in two ways:

1. At a rate on the value of rateable land, of which the:
   - **Rate:** may be uniform or differential
   - **Value:** can be based on elements such as the Capital Value, the Land Value or the Annual Value (a calculation based on rental value).

   This approach can be considered equitable – based on the assumption that those with higher value properties have a higher capacity to pay more.
2. UAGC consists of a fixed amount per rating unit (or separately inhabited rating unit). It is limited to 30% of the revenue from all rates.

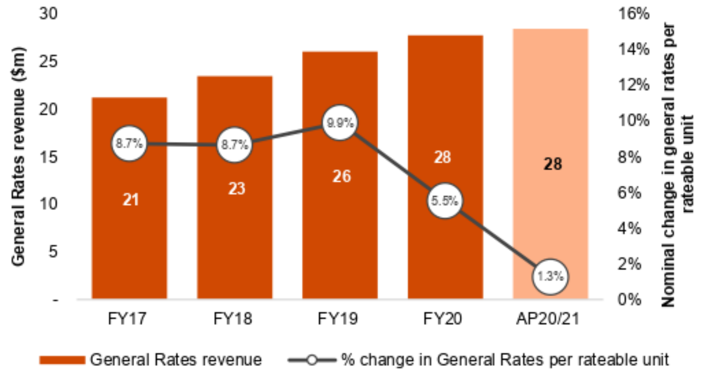
   Uniform Annual General Charges can be considered equal – everyone pays the same.

BoPRC's current approach is to maximise the UAGC (ie set it at 30%) and use land value for calculating the general rate.

Why is it important?

- Because of the broad rating base, general rates are an important revenue tool for Council.
- **A 1% increase in general rates per annum generates ~$300,000 p.a. in additional revenue and provides an additional ~$840,000 of debt capacity.**
- The differential affordability and financial positions of ratepayers across the region must be considered when setting general rates.

Historical general rates revenue (nominal)



Source: Annual Reports, Annual Plan, PwC Analysis

General Rates (cont.)

At present, BoPRC collects just over 20% of its total revenue through general rates, which is predominately applied to Regional Planning and Engagement, as well as regulatory and technical services.

Uses of general rates

- **Operating expenditure:** General rates were assigned as a low priority revenue source for operating expenditure under the 2018 LTP, with only reserves and borrowing assigned a lower priority.
- **Allocation:** The majority of general rates revenue is applied to the Regional Planning and Engagement, Integrated Catchment Management, Technical Services and Resource Regulation and Monitoring activities (~86%).
- **Capital expenditure:** Capital expenditure is not typically funded directly by rates, as this places the entire cost on current ratepayers. Instead, the use of reserves and/or borrowing, allows for the cost to be spread over time through interest and depreciation so that all beneficiaries of the asset contribute towards the cost.
- **UAGC:** The UAGC has been set at the maximum permissible level to reflect the even distribution of public good benefits from the Council's activities (ie at 30% of the revenue from all rates).
- **General rates:** A different land value charge per dollar of rateable land is used across the different constituent authorities to equalise against different re-valuation periods.
- **2020/21 Annual Plan:** $28.5m in general rates revenue is expected to be collected during 2020/21. Due to the impact of COVID-19 Council implemented a 0% increase in general rates in 2020/21 (after growth and inflation).

Potential impact of increasing general rates

Pros	Cons
✓ Promotes affordability through spreading the cost of services across a large number of ratepayers. ✓ Additional funding available to invest in increasing service levels, which will promote community outcomes and wellbeing. ✓ Reduced reliance on investment income may allow QHL to increasing its focus on investments that promote environmental and community outcomes and regional development. ✓ Additional debt capacity could support increased capital investment to improve community resilience and other outcomes.	× Increased unaffordability for some general ratepayers. × Risk that a less targeted approach to funding reduces alignment of the costs of services to the beneficiaries of those services. × Higher proportion of elderly people in the region impacts ability to absorb rate increase*. *median age in the Bay of Plenty in 2019 was 40.1 compared to 37.4 New Zealand wide, source: StatsNZ Subnational population estimates: At 30 June 2019.

Reserves

Key connected 'levers'

- ↓ Costs
- ↓ Capex
- ↑ Debt capacity

What is it?

Reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be cash or non-cash (eg asset revaluation reserves), which are essentially balancing items on Council's balance sheet.

Reserves are typically held in cash or short term deposits to ensure funds are liquid and available when required.

How does it work?

Contributions – cash reserves are built up through contributions from different funding sources (eg asset replacement reserve).

Expenditure – cash reserves may be applied at Council's discretion, provided the application is consistent with any restrictions placed on the reserve.

Reserves are held by either BoPRC or QHL. QHL reserves ensure that it can meet its obligations (eg BoPRC's dividend requirement) when markets are volatile without necessitating the sale of assets.

Why is it important?

Reserves may be used to smooth large and/or irregular expenditure. Cash reserves are an important funding source. These help Council prepare for planned expenditure, such as asset replacement, allowing costs of major infrastructure projects to be spread over time, improving intergenerational equity and affordability.

Reserves also ensure that funding received (eg through a targeted rate) is applied as per the purpose of the funding. This is particularly critical where funding is received in one financial year but used in a subsequent year (eg through overcollection).

In addition to funding planned expenditure, cash reserves can also help to manage risk by providing a buffer for unplanned expenditure (or volatility of funding sources). These provide a liquidity buffer to be used in times of financial or other stress (eg natural disaster) to support prudent financial management.

Potential impact of reducing reserve levels

Pros	Cons
✓ Opportunity to reinvest cash reserves through QHL to provide additional funding over the medium and long-term, which could be applied to improving service levels to promote community outcomes. ✓ Additional funding could be used to rebalance the split between investment income and general rates to improve ratepayer affordability. ✓ Opportunity to accelerate the timeframes for achieving QHL's $700m non-port assets, which would diversify QHL's investment away from PoT, potentially delivering more certainty over the forward dividend profile. ✓ Opportunity to increase investment in regional development.	× Potential reduction in financial resiliency through reducing liquidity, however given very high levels of liquidity, risks would still remain very low. × May reduce intergenerational equity if reserves are applied to reduce current rates burden or to improve service levels rather than being reinvested into non-port assets.

Establishing new Funds

What is it?

Funds are a type of reserve that can be managed independently of Council's balance sheet. It enables tailored management (eg targeting a specific return) and use (eg funding specific types of activities).

Funds do not need to earn a return and can simply be a vehicle for deploying funds into certain types of activities (eg assets or projects).

Why is it important?

Funds can enable more targeted use of capital, without the restraint of Council's existing requirements, such as liquidity requirements.

Council has historically made use of funds to target the use of capital, this includes the Infrastructure Fund and the Toi Moana Fund.

Capital can be used to drive social, economic, cultural and environmental outcomes for the region.

Council is in a unique position that it has a significant investment portfolio and balance sheet capacity.

How does it work?

Council can create a fund on a standalone basis, or partner with other investors under a co-governance model.

Typical objectives of a fund include:

- overall return
- cash dividend
- investment time horizon
- investment principles, such as:
  - social and ethical responsibility
  - the achievement of social, economic, cultural and environmental outcomes
  - geographic focus
- risk tolerance
- permitted asset classes
- asset allocation.

Potential impacts of establishing a new fund

Pros	Cons
✓ Enables the Council to deliver additional or accelerated benefits (eg community outcomes) to the region. ✓ Can be used to shift the funding burden from local beneficiaries (eg through targeted rates) to the broader ratepayer base.	× Requires upfront funding, if a 'balance sheet lever' is used options include divestment of PoT assets, transfer of existing reserves or taking on additional debt. Noting that a fund may not need to be fully capitalised at inception. × If a 'funding lever' is used it may require an increase in general rates or dividends. × Potential reduction in 'beneficiary pays' principle.

Debt Capacity

Key connected 'levers'

- ↑ Costs
- ↑ Capex
- ↓ Debt capacity

What is it?

Council's debt capacity reflects the maximum level of debt financing available to fund capital projects and investments.

How does it work?

Debt capacity is determined based on LGFA covenants and S&P debt thresholds. The most important measure is the Net Debt / Revenue ratio, which is considered by both the LGFA and S&P.

The LGFA measure the ratio solely on Council's financials, whereas S&P asses it against the consolidated Group (ie including QHL).

The Net Debt / Revenue ratio is impacted by:

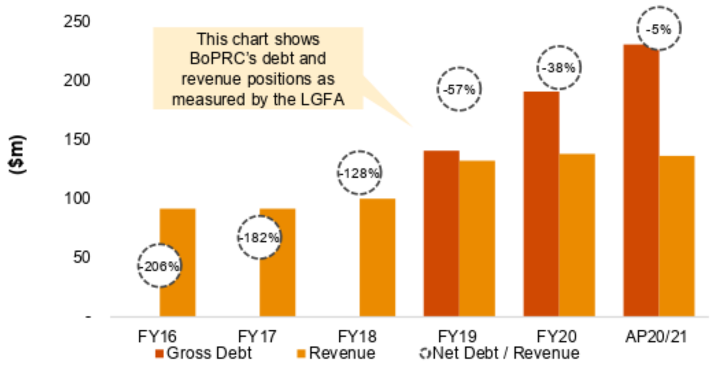
- the size and liquidity of Council's investment portfolio;
- the level of Council's gross borrowings; and
- council's operating revenues (excluding vested assets and development contributions).

Council must also consider its level of borrowings from a serviceability and repayment perspective. This requires considering Council's ability to raise future income from its funding sources, which is likely to be through higher general rates and/or investment income.

Why is it important?

- It reflects the maximum level of debt available to Council.
- Debt is used to finance capital projects.
- Efficient source of funding large projects particularly as Council can access the LGFA.
- Council's debt levels (excluding PoT) impact its S&P credit rating.
- BoPRC must comply with LGFA lending covenants.
- Debt must be serviced by other sources of income.

Gross debt and net debt / revenue (BoPRC only)



Source: Annual Reports, Annual Plan, PwC analysis

note: the PPS is not included in the above chart

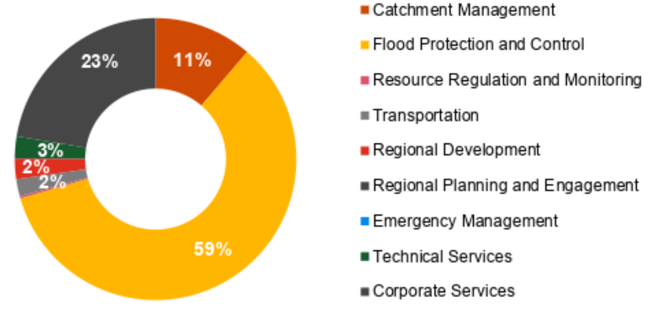
Debt Capacity (cont.)

Debt is used to finance capital projects and investments. Council currently has significant capacity to increase borrowing.

Uses of debt financing

- **Capital expenditure:** To finance relevant projects within the Bay of Plenty Region. This approach is considered equitable as capital projects typically provide intergenerational benefits which justifies using debt to spread costs across both current and future ratepayers.
- **To purchase financial assets:** Provided the cash return was above Council's cost of borrowing, this approach would be relatively self sustaining. Council already undertakes a similar approach, its gross level of borrowings are relatively high however these are offset by its financial assets which results in a low net det balance.
- **To assist in repayment of the PPS**: There are circumstances in which QHL could be required to re-purchase perpetual preference shares. Utilising Council borrowing is a cost effective way for the group to do this.

Uses of debt financing by activity class (AP20/21)



Source: Bay of Plenty Regional Council, PwC Analysis

Potential impact of reducing debt capacity (ie increasing debt levels)

Pros	Cons
✓ Able to bring capital expenditure forward.	× Could have credit rating and LGFA implications.
✓ Funds raised can be used to diversify Council's investment holdings (ie increase non-port assets).	× Will need to service higher levels of borrowings.
✓ Funding may allow Council to reach their desired 'future state' faster.	× Serviceability may result in rate increases.
✓ Borrowing costs are at historical lows.	× May result in marginal capital expenditure being completed. These may not provide intergenerational benefits.
✓ Approach may be self sustaining if funds are invested in financial assets that provide a cash yield.	× Council's gross debt position will be higher.
	× May reduce ability to borrow in the future.
	× Council may need to revise their investment risk tolerance.

10. PoT Shareholding

PoT Shareholding

Key connected 'levers'

- ↓ QHL dividend
- ↑ Capex
- ↓ QHL investment portfolio

What is it?

Council owns 100% of QHL, which in turn owns 54.14% of PoT. Council would like to maintain QHL majority ownership of PoT, and through this effective control over PoT's strategic direction. This is reflected in QHL's SoI which requires "majority ownership" of PoT.

However, this could be achieved whilst divesting QHL's non controlling stake of 3.14%, ie moving from 54.14% to 51% shareholding in PoT.

How does it work?

PoT has a diverse shareholding. There would be no Takeovers Code issue with any existing shareholder acquiring this stake. Given these shares are NZX listed, highly liquid and at 3.14%, it is a relatively small stake. Funds could be realised quickly through a direct approach to investment funds, or through a broker.

Uses of divestment proceeds

- **Capital expenditure**: fund relevant projects in the region (via QHL or BoPRC).
- **Recycling of funds**: reinvesting funds in QHL.

Why is it important?

PoT is a strategic asset for Council. It has paid out significant and growing dividends since listing, which have effectively subsidised rates over this period (lowest proportion of total revenue of all regional councils).

PoT has also returned significant capital growth since listing. However, none of this capital growth has been realised. Divestment of a 3.14% shareholding provides the opportunity to crystallise these returns without losing control of the strategic asset.

Proceeds could then be used to fund operating or capital costs for BoPRC, kept in reserve for future investment, or to further diversify Council's investment portfolio, which is heavily weighted towards PoT.

However, Council would need to consider the loss in dividend revenue associated with a smaller shareholding in PoT.

In theory, maintaining the holding above 50.1% provides limited buffer against a capital raise. However, if PoT needed a capital raise it is likely to need much more than this buffer would protect them against (for a small funding requirement, PoT would simply raise more debt).

Potential impact of divesting QHL's non controlling stake in PoT

Pros	Cons
✓ Releases significant amount of capital that can be redeployed. ✓ Diversification of Council's investment portfolio (albeit the portfolio would still be highly weighted towards the port). ✓ Despite volatility relating to Covid-19, the current share price is still highly valued (P/E multiple greater than 50). Returns are therefore maximised.	× The PoT investment has provided strong returns and sale of such a small stake is unlikely to provide significant diversification benefits. × Lower future dividend from PoT. × There may be tax implications which limit the ability to transfer funds back to BoPRC without realising a tax liability. × Potential for community resistance. × No buffer if the Port requires capital in the future. × May have to accept a discount given the size of the stake.

Glossary

Term	Definition
AP	Annual Plan
AR	Annual Report
BOPLASS	Bay of Plenty Local Authority Shared Services
BoPRC	Bay of Plenty Regional Council
CCO	Council Controlled Organisation
FFR	Financial Framework Review
LGA	Local Government Act
LGFA	Local Government Funding Agency
LTP	Long Term Plan
NZDX	NZX Debt Market
NZX	New Zealand's Exchange
PoT	Port of Tauranga Limited
PPS	Perpetual Preference Shares
QHL	Quayside Holdings Limited
SIPO	Statement of Investment Policy and Objectives
SoE	Statement of Expectation
SoI	Statement of Intent
UAGC	Uniform Annual General Charge

Key terms of business and restrictions

This Report has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose.

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The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this report are based on information available as at the date of the report.

We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

Certain numbers included in tables throughout this report have been rounded and therefore may not add exactly.

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This report is issued pursuant to the terms and conditions set out in our engagement letter dated 8 May 2020 and the Terms of Business attached thereto.

Thank you

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Bay of Plenty Regional Council

LTP 2021-2031 Budget Changes - Summary of Deliberations Recommendations (Preferred Option Only)

OPERATING EXPENDITURE AND REVENUE

Group of Activities	Activity	Description	Pref Opt?	Operating or Capital	Year 1 2021/22 $000	Year 2 2022/23 $000	Year 3 2023/24 $000	Year 4 2024/25 $000	Year 5 2025/26 $000	Year 6 2026/27 $000	Year 7 2027/28 $000	Year 8 2028/29 $000	Year 9 2029/30 $000	Year 10 2030/31 $000	10 Year Total $000
Resource Regulation & Monitoring	Regulatory Compliance	Option 2: Motiti Communications	Y	Operating expenditure	30	32	33	-	-	-	-	-	-	-	**94**
Resource Regulation & Monitoring	Regulatory Compliance	Option 2: Motiti Monitoring 35 days	Y	Operating expenditure	44	46	48	49	51	52	54	55	57	58	**514**
Resource Regulation & Monitoring	Maritime Operations	Option 3: Eastern Bay Maritime Officer Full Time	Y	Operating expenditure	95	100	103	106	109	112	116	119	122	126	**1,109**
Resource Regulation & Monitoring	Maritime Operations	Option 2: New Vessel Operating Exp (Capital purchase)	Y	Operating expenditure	350	48	62	62	62	63	63	63	64	64	**901**
Catchment Management	Coastal Catchments	Option 3: Ariel wetland biodiversity mapping +$300k annual	Y	Operating expenditure	300	316	326	335	345	355	365	376	386	397	**3,502**
Flood Protection and Control	Rivers and Drainage	Option 2: Rangitāiki Floodwall (College Rd) - additional opex on capital spend	Y	Operating expenditure	-	121	181	179	181	181	181	181	181	181	**1,567**
Flood Protection and Control	Rivers and Drainage	Option 2: Ford Road Pump Station Additional Capacity - Operating costs	Y	Operating expenditure	(60)	329	596	636	636	636	636	636	636	636	**5,321**
Flood Protection and Control	Rivers and Drainage	Minor rivers and drainage - reduction in operational costs	Y	Operating expenditure	(342)	-	-	-	-	-	-	-	-	-	**(342)**
Democracy, Engagement and Planning	Māori Policy	Freshwater Māori Engagement	Y	Operating expenditure	1,000	1,054	1,086	1,118	1,151	1,183	1,217	1,252	1,288	1,324	**11,673**
Democracy, Engagement and Planning	Māori Policy	Māori Partnership Capacity/Capability	Y	Operating expenditure	200	211	217	224	230	237	243	250	258	265	**2,335**
Democracy, Engagement and Planning	Māori Policy	Toi Kai Rawa	Y	Operating expenditure	300	200	100								**600**
			Y												
Democracy, Engagement and Planning	Climate Change	Option 2: $175k p/yr	Y	Operating expenditure	175	184	190	196	201	207	213	219	225	232	**2,043**
Democracy, Engagement and Planning	Sustainability	Option 4: Low/no interst loans, partial/full grants for low income households.	Y	Operating expenditure	10	65	66	68	70	72	74	77	79	81	**663**
Transport and Urban Planning	Passenger Transport	New Option: Trial region wide free fares for sch children during arrival and departure times	Y	Operating expenditure	1,337	738									**2,075**
Transport and Urban Planning	Transport and Urban Planning	Option 1: Decarbonisation Feasibility	Y	Operating expenditure	300	-	-	-	-	-	-	-	-	-	**300**
Transport and Urban Planning	Passenger Transport	Option 1: Support Carless Wednesday	Y	Operating expenditure	273	-	-	-	-	-	-	-	-	-	**273**
Transport and Urban Planning	Transport and Urban Planning	Option 1: TSP Programme Management function & Programme Support	Y	Operating expenditure	590	607	626	644	663	682	701	721	742	763	**6,739**
Transport and Urban Planning	Passenger Transport	ROT PT Option 3: A balanced approach	Y	Operating expenditure	703	852	584	582	616	671	669	666	661	653	**6,657**
TOTAL OPERATING CHANGES					**5,305**	**4,903**	**4,218**	**4,200**	**4,316**	**4,452**	**4,533**	**4,615**	**4,699**	**4,781**	**46,022**

CAPITAL EXPENDITURE

Group of Activities	Activity	Description	V5	Operating or Capital	Year 1 2021/22 $000	Year 2 2022/23 $000	Year 3 2023/24 $000	Year 4 2024/25 $000	Year 5 2025/26 $000	Year 6 2026/27 $000	Year 7 2027/28 $000	Year 8 2028/29 $000	Year 9 2029/30 $000	Year 10 2030/31 $000	10 Year Total $000
Resource Regulation & Monitoring	Maritime Operations	Option 2: New Vessel Capital purchase	Y	Capital	-	900	-	-	-	-	-	-	-	-	**900**
Flood Protection and Control	Rivers and Drainage	Option 2: Rangitāiki Floodwall (College Road)	Y	Capital	-	2,076	-	-	-	-	-	-	-	-	**2,076**
Flood Protection and Control	Rivers and Drainage	Option 2: Additional capacity Ford Road Pump Station	Y	Capital	(1,024)	7,863	1,846	-	-	-	-	-	-	-	**8,685**
TOTAL CAPITAL CHANGES					**(1,024)**	**10,839**	**1,846**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**11,661**

Community Funding Requests

	Funding requested			Staff recommendation				
Application Name	2021/22	2022/23	2023/24	2021/23	2022/24	2023/25	Paper for Decisions	Funding Source
Envirohub	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000	Community - Volunteers	Volunteers - $500k
NZ Landcare Trust	$ 150,000	$ 150,000	$ 150,000	$ 100,000	$ 100,000	$ 100,000	Community - Volunteers	Volunteers - $500k
Te Runanga o Ngati Manawa	$ 330,000	$ 250,000	$ 250,000	$ 25,000	$ 25,000	$ 25,000	Māori Partnerships	MP - FW/Co-Governance
Bay Conservation Alliance	$ 190,000	$ 250,000	$ 250,000	$ 85,000	$ 85,000	$ 85,000	Community - Volunteers	Volunteers - $500k
Te Arawa Lakes Trust		$ 600,000	$ 600,000				Māori Partnerships	MP - FW/Co-Governance
Tauranga Moana Biosecurity Capital (TMBC)	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000	Community - CIF	CIF - $200k
Toi Kai Rawa	$ 600,000	$ 600,000	$ 600,000	$ 300,000	$ 200,000	$ 100,000	Māori Partnerships	MP - FW/Co-Governance
Tourism BOP Low Carbon Economy	$ 60,000	$ 60,000	$ 60,000	$ 60,000	$ 60,000	$ 60,000	Community - CIF	CIF - $200k
Priority One	$ 250,000			$ -	$ -	$ -	Māori Partnerships; Community-CIF	MP - FW/Co-Governance ; CIF - $200k
Discovery Through Nature	$ 36,066	$ 21,240	$ 21,240	$ -	$ -	$ -	Community - CIF	CIF - $200k
Te Tatau Te Arawa	$ 158,610						Māori Partnerships	MP - FW/Co-Governance
Ngati Pikiao Environmental Society	$ 205,000			$ 10,000	$ 10,000	$ 10,000	Māori Partnerships	MP - FW/Co-Governance
Te Arawa Ki Tai	$ 65,000	$ 30,000	$ 20,000				Māori Partnerships	MP - FW/Co-Governance
Western BOP Neighbourhood Support	$ 36,520	$ 40,000	$ 45,000	$ -	$ -	$ -	Community - CIF	CIF - $200k
Film BOP	$ 30,000	$ 30,000	$ 30,000	$ -	$ -	$ -	Community - CIF	CIF - $200k
He Taonga Te Wai	$ 200,000						Māori Partnerships	MP - FW/Co-governance
Kawerau Trails Trust	$ -	$ -	$ -	$ -	$ -	$ -	Community - CIF	CIF - $200k
Te Runanga o Ngai Te Rangi Iwi Trust	$ 262,225	$ 291,950	$ 304,657	$ 116,666	$ 116,666	$ 116,666	Māori Partnerships	MP - FW/Co-Governance
Bay of Connections	$ 50,000	$ 100,000		$ -	$ -	$ -	Community - CIF	CIF - $200k
Rotorua X Charitable Trust	$ 10,000	$ 10,000	$ 10,000	$ -	$ -	$ -	Community - CIF	CIF - $200k
Sport Bay of Plenty (on behalf of Water Safety Bay of P	$ 25,000	$ 25,000	$ 25,000	$ -	$ -	$ -	Community - CIF	CIF - $200k
Sustainable BOP Charitable Trust	$ 30,000	$ 30,000	$ 30,000	$ -	$ -	$ -	Community - CIF	CIF - $200k
Taonga Tauranga Heritage BOP Charitable Trust	$ 40,000			$ -	$ -	$ -	Community - CIF	CIF - $200k
TAURANGA MOANA IWI PARTNERS (TMAG)	$1,807,580	$1,807,580	$1,807,580	TRONTR Trust	TRONTR Trust	TRONTR Trust	Māori Partnerships	MP - FW/Co-Governance
Waiariki Park Region	$ 96,408	$ 96,408	$ 96,408	$ -	$ -	$ -	Community - CIF	CIF - $200k
Rangitaiki River Forum and Te Maru o Kaituna				$ 200,000	$ 200,000	$ 200,000	Māori Partnerships	MP - FW/Co-Governance
Tourism BOP Cultural Capability	$ 50,000	$ 50,000		$ -	$ -	$ -	Community - CIF	CIF - $200k
Carfree Wednesday	$ 273,000			$ 273,000			Transport	Transport Budget

Third Party Infrastructure Funding Requests

	Funding requested					Staff recommendation						
Application Name	2021/22	2022/23	2023/24	2024/25	2025/26	2021/23	2022/24	2023/25	2024/25	2025/26	Paper for Decisions	Funding Source
Lake Tarawera Ratepayers Association	$2,000,000										Regional and Sub-Regional Leadership	Reserves or Borrowing
Rotorua Lakes Council Wastewater Schemes	General request for $3,000 per property for lakes wastewater reticulation, extra $750,000 for Lake Tarawera + others										Regional and Sub-Regional Leadership	Reserves or Borrowing
Te Whare Taona o Te Arawa	$ 195,800	$3,625,700	$ 278,400			$ -	$ -	$ -			Regional and Sub-Regional Leadership	Reserves or Borrowing
Whakatāne Matatā Wastewater Scheme			$2,333,333	$2,333,333	$2,333,333	$ -	$ -	$ -			Regional and Sub-Regional Leadership	Reserves or Borrowing

ITEM 8.2

PUBLIC EXCLUDED ATTACHMENT 4

BanCorp Pre-funding Strategy

Item 8.2, Attachment 5 - Public Excluded

ITEM 8.2

PUBLIC EXCLUDED ATTACHMENT 5

BanCorp Borrowing Strategy

BAY OF PLENTY REGIONAL COUNCIL TOI MOANA

Report To: Regional Council

Meeting Date: 12 May 2021

Report Writer: Zhivan Alach, Organisational Performance Manager; Mark Le Comte, Principal Advisor, Finance and Debbie Hyland, Finance & Transport Operations Manager

Report Authoriser: Mat Taylor, General Manager, Corporate
Namouta Poutasi, General Manager, Strategy & Science

Purpose: To outline the potential leadership and collaboration role in Regional Spatial Planning, and evaluate third party infrastructure funding requests.

Regional and Sub-Regional Leadership - Deliberations Decisions

Executive Summary

Over the next decade, and further, there will be on-going and potentially growing demand for action on infrastructure issues faced by diverse communities.

This paper covers the regional and sub-regional leadership role in spatial planning and proposed new legislative requirements under the RMA reform programme.

As a first step this paper proposes that staff progress principles and a policy for regional benefit investment in preparation for regional spatial planning implementation. This tool can provide communities with an opportunity to influence their area and to shape their communities.

Staff support regional spatial planning as a key tool to connect partners to ensure delivery of community outcomes. Whakatāne District has identified the need for Council to play a critical collaborative role in updating the Eastern Bay Spatial Plan. This work will align well with preparation required for the requirements arising from the RMA Reform Programme.

Council has received four infrastructure funding requests. Given the level of uncertainty with Regional Spatial Planning, and prioritisation, and with some of the projects; it is proposed to decline these at this stage and invite re-submission at the appropriate times.

Recommendations

That the Regional Council:

1 **Receives the report, Regional and Sub-Regional Leadership - Deliberations Decisions.**

2 **Notes regional spatial planning will be a key tool in the future to connect communities and partners together to ensure delivery of community outcomes and is intended to become a legislative requirement.**

3 **Agrees in principle to support updating the spatial plan for the Eastern Bay of Plenty so that there will be robust and current data/intentions for each sub-region to form part of the evidence base to build a regional spatial plan.**

4 **Agrees as a first step for BOPRC staff to work with Whakatāne District Council, other councils, Iwi/Māori, Toi EDA/Toi Koi Rawa and central government officials to scope the work required to update the spatial plan for the Eastern Bay and report back to Council by December 2021.**

5 **Notes further reprioritisation of workloads and additional funding maybe required during 2021/2022 to develop this Eastern Bay spatial plan especially for community participation in spatial planning.**

6 **Agrees that staff are to progress principles and a policy for regional benefit investment in preparation for regional spatial planning implementation.**

7 **Declines the funding request for Matatā Wastewater Reticulation at this time and invites Whakatāne District Council to resubmit when further information is available on the full funding proposal including ratepayer impacts and implications of the three waters reform.**

8 **Declines the request for additional funding for Lake Tarawera Wastewater (and other future Lakes Wastewater reticulation).**

9 **Declines the funding request for Te Whare Taonga o Te Arawa at this time, and invites the request to be resubmitted early in the development of Annual Plan 2022/23 to allow for further fundraising to be completed and for the potential to publically consult on a targeted rate.**

10 **Confirms the decision has a medium level of significance as determined by the Council's Significance and Engagement Policy. Council has identified and assessed different options and considered community views as part of making the decision, in proportion to the level of significance.**

1. Introduction

Bay of Plenty Regional Council has historically provided financial support to a range of projects across the region, via mechanisms such as the Regional Infrastructure Fund and Third Party Infrastructure Funding. This support has sometimes been delivered on an ad-hoc basis, triggered by third-party requests rather than a deeper and wider evidence-based analysis of regional needs.

Over the next decade, and further, there will be an on-going and potentially growing demand for action on infrastructure issues faced by diverse communities. Regional Council is in a unique position to combine and connect these issues to ensure the most impactful use of constrained financial resources to address those issues.

Alongside the above, there are continuing central government reforms of local government roles and resource management.

Regional Council has recently reviewed, and reset, its financial framework and financial levers. It has received four 3rd party requests for funding through the Long Term Plan process. There may be an opportunity at the current time to develop a more proactive, evidence-based approach to the provision of support across the region for activities that are not necessarily aligned with the Regional Council role.

1.1 Legislative Framework

There is currently no legislative requirement for a Spatial Plan, though this is intended to become a requirement under the Strategic Planning Act by the end of 2023. Regional priorities are guided by the Local Government Act definitions of the purpose, role and co-ordination responsibilities of Local Government in s11-17 and decision making requirement of s76-81.

1.2 Alignment with Strategic Framework

A Vibrant Region	We invest appropriately in infrastructure to support sustainable development.
The Way We Work	We continually seek opportunities to innovate and improve.

1.2.1 Community Well-beings Assessment

Dominant Well-Beings Affected			
☐ Environmental	☐ Cultural	☑ Social Low - Positive	☑ Economic Low - Positive

1.3 Significance

The recommended proposal/decision has been assessed against the criteria and thresholds in Council's Significance and Engagement Policy, and can be considered:

Medium	The decision is not within existing budgets and does not implement the current long term plan or annual plan. The financial costs and implications of the decision are not yet known or provided for.

2. Regional and Spatial Planning

Regional Spatial Planning includes a process of identifying preferred land uses for various parts of the broader region in a strategic manner. It differs from traditional approaches whereby a "patchwork quilt" is developed by individual territorial authorities. Larger plans enable a broader range of interventions.

Regional Spatial Planning can provide communities with an opportunity to influence their area and to shape their communities. This is achieved by addressing needs through a joint approach involving multiple sectors, agencies, and organisations allocating funding to the areas where the greatest impact is achieved.

"Wicked" public policy problems, such as housing, or the implementation of new resource management reforms, require the intervention of multiple sectors, agencies, and organisations to first agree joint objectives and then resource multiple workstreams to achieve those objectives.

2.1 Current state

There is currently no legislative definition or scope that a Spatial Plan would need to meet. This is further discussed in section 2.3 RMA Reform.

There are currently three sub-regional Spatial Plans that cover the Bay of Plenty Region. These are:

- Eastern Bay Beyond Today
- Rotorua Spatial Plan
- Smartgrowth/UFTI

Each of these plans have been developed at different times, with differing evidence bases, have different scopes, and following different processes. It is clear however that the region, and sub-regions will face significant funding challenges over the coming 10-30 years. Infrastructure investment will be required to meet substantial challenges including:

- Supply of housing
- Providing for future growth
- Replacement of ageing infrastructure
- Climate change resilience

The Mayoral forum is an important body to connect sub-regional issues to lobby for government and local action. The forum has set the following priorities:

1. Housing – this directly aligns with spatial planning

2. Climate change – spatial planning needs to be informed by climate projections

3. Social inequity - this is indirectly aligned with spatial planning via housing supply/affordability and economic develop aspirations (where this is part of spatial planning)

4. The future of local government – RMA reform intent includes a Strategic Planning Act to require Regional Spatial Plans.

Regional Spatial Planning has been an aspiration for Regional Council's and will become a key deliverable in the coming years to meet legislative requirements, local intentions, and to optimise Regional collaboration. The Bay of Plenty Regional Council is in a unique position to promote and support Regional Spatial Planning and delivery, due to its strong financial arrangements. However, it will need to carefully consider any investments.

2.2 RMA Reform

Government has been following the recommendations of the report "New Directions for Resource Management in New Zealand" (known as the Randerson Report). This 500 page report discusses many issues with the Resource Management System in New Zealand, and proposes many changes. The major legislative changes are the repeal of the Resource Management Act, to be replaced with:

- A new Natural and Built Environment Act (NBEA),

- A new Strategic Planning Act (SPA), and

- A new Climate Change Adaptation Act (CCAA).

The timeline intended for the development of these acts is:

- An exposure draft of the NBA in May 2021, including the overall purpose of the Bill and what it aims to achieve, the Treaty clause, the National Planning Framework and region-wide plans.

- The exposure draft will be considered by a Select Committee Inquiry in the second half of 2021.

- The SPA will be developed in parallel to the NBA and will be closely aligned to the development of the CCAA.

- The NBA being passed into law by the end of 2022 and the SPA and CAA in 2023.

The general outline of the SPA is that it will:

- provide a strategic and long-term approach to how we plan for using land and the coastal marine area.

- Long-term spatial strategies in each region would be developed to identify areas that:
  - will be suitable for development

  - need to be protected or improved

  - will need new infrastructure and other social needs

  - are vulnerable to climate change effects and natural hazards such as earthquakes.

These Acts will require major changes for Local Government. Based on progress to date, the best current assumption is that the Bills will largely reflect the findings of the Randerson Report.

2.3 Readiness for legislative change

Cabinet papers have acknowledged that the suite of RMA reform will require significant resourcing and support from central government in both the short and long-term. Identified areas of support include

- developing and testing combined plans to serve as models for local authorities
- consolidation of existing national direction into a single integrated format in preparation for being incorporated into the National Planning Framework
- incorporation of mātauranga Māori and tikanga Māori
- support to increase capacity and capability throughout the system (including for iwi and local authorities)
- an improved environmental monitoring and reporting system to enable effective setting and operation of new limits and targets

Staff recommend that work is progressed to complete an assessment of the actions that need to be taken now to position the region for implementation of the RMA reforms, especially the introduction of Spatial Planning Strategies, so that the region is positioned to move into implementation within the next 2-3 years.

These interventions are likely to encompass:

- Iwi capacity and relationship building
- Developing partnerships and relationships with key stakeholders
- Identifying gaps in the current sub-regional spatial plans against changes in the operating environment.
- Identifying cross-boundary issues and potential duplications between current sub-regional spatial plans
- Building an agreed evidence base (including closing information gaps)

3. Funding Regional Planning

Regional Council (Group and Parent) have general financial reserves and strong financial resilience against economic shock. These funds generally earn interest to offset expenditure, or grow in value and provide a revenue return. Through the current Long Term Plan these reserves have not been fully earmarked for future use.

There will be an opportunity to earmark reserves towards Regional Spatial Planning over the next few years. This could include considering the context of submissions, where this aligns with our Financial Strategy, Revenue and Financing Policy, and would require significant work to confirm details throughout 2021/22.

Depending on its significance, it might also require public consultation through the next Annual Plan process for example.

There are primary funding sources to be considered that have been identified through the Financial Framework Review, including Council's accumulated Regional Fund reserve, non-port holdings, rating, and borrowings.

3.1 Potential approach

This section outlines a potential approach to funding Regional Spatial Planning. In general, staff recommend that Council completes work on principles and policy for regional benefit investing, which would then be used for Council to contribute to Regional Spatial Planning delivery. A potential high level approach is outlined below. Further detailed investigation and collaboration is required before any of this is enters consideration to become Council Policy

3.1.1 Regional Spatial Plan Funding

An agreed spatial plan would set a consolidated list of priorities for the region across central government departments, Councils, mana whenua groups, and potentially other key stakeholder/partners/suppliers. As examples, initiatives like a sufficient supply of affordable housing, climate change resilience and cultural protection/enhancement projects are likely to be high priorities.

Each of the partners will have different abilities to fund the priorities. Each partner will need to assess the budgets required for their core responsibilities and then determine whether there is available capacity (including borrowing capacity up to their limits) to determine the total potential funding that could be available. In this context, BOPRC strong balance sheet and diversity of income (including that from Quayside), the Bay of Plenty Region could have a strategic advantage compared to other regions in attracting government co-funding.

This could be allocated to portfolios of projects to deliver on agreed priorities. For illustration this could include:

- An affordable housing fund could be allocated to be used region-wide to support developments and infrastructure based on the number of houses provided and the current level of under-supply.
- A Climate Change Fund could be allocated to use towards protecting areas at risk or contributing to managed retreat (pending the Climate Change Adaptation Act).
- A Māori Partnership Fund, with allocated decision making delegated to Komiti Māori to make funding decisions

3.1.2 Investing for General Regional Benefit

Another tool to consider would be to establish a specific regional benefit entity.

Separate entities with a clear mandate can have a number of potential benefits. For example, Quayside has shown an exceptional track-record of achieving financial returns.

Further investigation could be conducted on establishing a new mechanism (or a new entity) that is focussed on regional benefit investing. This would complement Council's focus on core-service delivery and Quayside's focus on investment return.

This mechanism could be for key Regional Infrastructure projects of significance and scale, as informed by a Regional Spatial Plan.

4. Submissions Received

Regional Council has received a number of requests for funding through the Long Term Plan submission process that may be better dealt with through a multi-agency regional spatial planning process. These requests are for projects of regional, and sometimes national significance. There are four specific Third Party Infrastructure Funding Request which are discussed further in section 4.2.

1. Te Whare Taonga o Te Arawa (Rotorua Museum) Request $4m
2. Rotorua Lakes Council Scheme Funding Request
3. Tarawera Wastewater Request $2m
4. Whakatāne District Council Matatā Wastewater Scheme $7m

4.1 Council also received submissions requesting involvement in spatial planning. This included a submission from the Whakatāne District Council that outlined that BOPRC will play a critical collaborative role in the development of a spatial plan for the Eastern Bay. The sub-region will face significant funding challenges over the coming 10-20 years. Infrastructure investment will be required to manage future growth.

This is over and above the substantial infrastructure changes including increased standards, ageing infrastructure and climate change. This will necessitate looking for appropriate and sustainable ways to fund increased investment need for regional infrastructure. WDC seeks BOPRC's support as we work together to help realise the potential of the Eastern Bay whilst enhancing the wellbeing of our communities.

This aligns very well with the work required to prepare for work required under the RMA reform programme. The current Eastern Bay Spatial Plan was prepared in 2015 with an intended five year review. It also serves as a good example of potential stakeholder management complexities as it spans a wide geographical area with the territorial local authorities and multiple iwi/hapū. It is also an area of high economic deprivation which may provide high value opportunities to improve outcomes.

It is recommend that Council:

- Agrees in principle to support updating the spatial plan for the Eastern Bay of Plenty so that there will be robust and current data/intentions for each sub-region to form part of the evidence base to build a regional spatial plan.
- Agrees as a first step for BOPRC staff to work with Whakatane District Council, other councils, Iwi/Māori, Toi EDA/Toi Koi Rawa and central government officials to scope the work required to update the spatial plan for the Eastern Bay and report back to Council by December 2021.
- Notes further reprioritisation of workloads and additional funding maybe required during 2021/22 to develop this Eastern Bay Spatial Plan, especially for community participation in spatial planning.

4.2 Third Party Infrastructure Funding Requests

Four funding requests were received for third party infrastructure. These can be grouped as being related to water or other infrastructure. Future work on Regional Spatial Planning will provide a more complete framework for making funding allocation decisions.

4.2.1 Water infrastructure requests

Three of the funding requests are related to wastewater infrastructure. These projects are subject to significant uncertainty related to three waters reform. It is important to note that the three waters reform programme makes robust assessment of project delivery and the financial situation of the requesting Council, including forward borrowing and ratepayer funding, impossible to assess with certainty. Therefore, it is recommended that the Regional Council's funding decisions are taken when there is more information and more certainty.

Rotorua Lakes Council Scheme Funding Request

Rotorua Lakes Council requested that Council:

Reviews and readjusts its funding assistance to lakes wastewater reticulation schemes in line with the effects of inflation since the early 2000 or from $1,500p/p to $3,000p/p.

This request misinterprets how Council makes funding decisions currently and in the past. Council does not have a default per property contribution level and, depending on the application received, indexation to early 2000 may be wholly inappropriate.

Previous funding requests were assessed against the Regional Assistance for Small Scale Sewerage Schemes Policy, which is no longer valid. This policy allocated grants primarily on the basis of the deprivation index for the community. The last budgeted project funded under this policy is the Rotoiti/Rotomā scheme, and this funding has nearly been fully drawn down.

More recently, in 2018 Council allocated funding for the Tarawera sewerage scheme under the Third Party Infrastructure Funding Policy. The approved grant of $750,000 was determined on the basis of compliance and consent costs that would be avoided by replacing OSET systems in an OSET maintenance zone with a reticulated system.

Given this decision was made in 2018, there is no reason to index this to a much earlier date.

It is recommended that this request is declined and it is explained to Rotorua Lakes Council how funding applications are assessed. Staff are always available to assist applicants with the funding process and information requirements.

Tarawera Wastewater Request $2m

The Tarawera Ratepayers Association has requested that Council makes a $2 million contribution to the Lake Tarawera wastewater scheme. This application does not appear to recognise that Council is already making a $750,000 contribution to the scheme directly to Rotorua Lakes Council. The request does not provide further facts that were not already considered in the decision to allocate funding in 2018. Therefore, it is recommended that the request is declined with clear communications that Council is already a project funder.

It is noted that Lake Tarawera residents do not currently have the ability to provide their funding contribution through a targeted rate over time, and instead are required to make a lump sum contribution.

This decision was taken by Rotorua Lakes Council based on their ability to debt fund these contributions. The potential three waters reform may change this position.

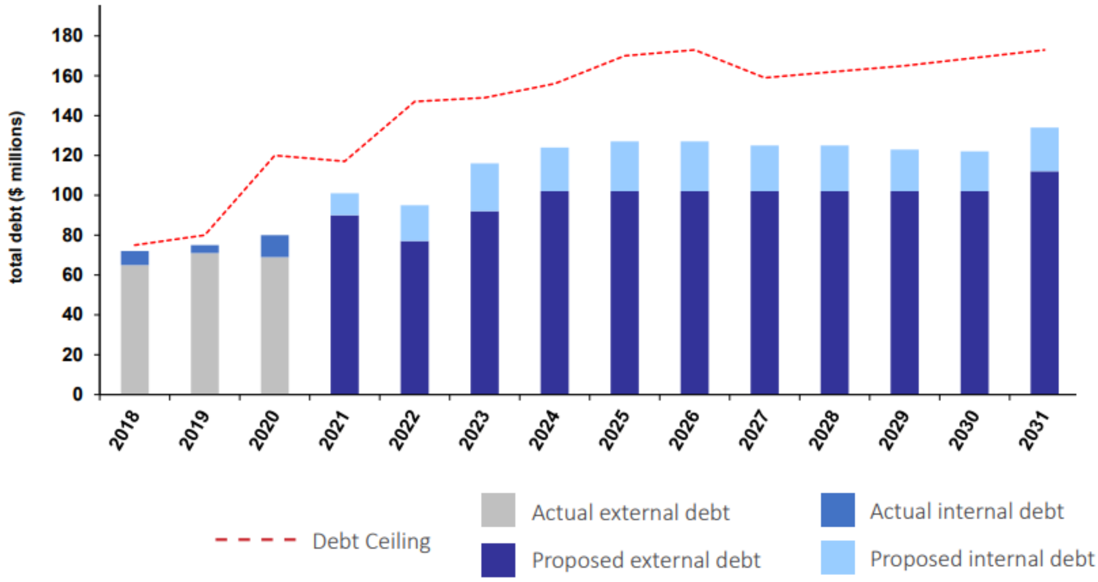
Whakatāne District Council Matatā Wastewater Scheme $7m

Whakatāne District have been working to move Matatā from OSET systems to a reticulated system for several years. Council recognises that this area has "occasional elevated E.coli and nutrient levels indicating septic tank contamination. This has been confirmed by positive faecal source tracking (FST) human markers". As such Matatā is currently an OSET Maintenance Zone as an interim measure until reticulation is achieved.

Whakatāne District Council estimate the cost of reticulation at $20 million (including inflation), which is approximately $77,000 per connection for the estimated 260 connections required. Whakatāne District Council expects the Ministry of Health to contribute $6.7 million towards the project, however, it is currently unclear how other costs will be funded through targeted rates for Matatā, the equalised sewerage rate, lump sum contributions and other options. Without this clarity, Council cannot effectively consider ratepayers affordability aspects of this project.

It is noted that the only wastewater project of similar scale that has been approved under the Third Party Infrastructure Policy is the Tarawera sewerage scheme. The grant allocations to Tarawera was determined based on resource consent and compliance costs avoided by Council. If a similar basis was used for Matatā wastewater, the level of grant from Council would be in the order of $500,000 - $700,000.

Construction is not intended until year three (2023/24) as resource consents, design and contracting need to be completed. Staff consider that the project can continue to progress resource consent requirements with Council committing to funding the project. Staff note that Whakatāne District's proposed LTP 2021-2031 includes sufficient debt headroom to fully fund this project from new debt as shown in the figure below.



It is recommended that Council declines this funding request. Council may reconsider when further information is available on the full funding proposal including ratepayer impacts and implication of three waters reform. It is recommended that this request is declined and it is explained to Rotorua Lakes Council how funding applications are assessed.

4.2.2 Te Whare Taonga o Te Arawa (Rotorua Museum Request) $4.1m

The Te Whare Taonga o Te Arawa (Rotorua Museum) is in the in the process of substantial earthquake strengthening programme costing $53.5 million which is being fully funded, including a grant from the Provincial Growth Fund of $15 million and a further $5 million from the Regional Culture and Heritage Fund.

Te Whare Taonga is now fundraising for $6 million to complete a full re-design and development of its exhibitions. This will include permanent and short term exhibitions developed in partnership with Te Arawa.

This project aligns with the economic development goals under the Vibrant Region Community Outcome. A BERL report commissioned in 2019 estimated the overall Museum project would contribute $96million in GDP and between 66 and 149 FTEs annually during construction and operation. The table below shows a breakdown of the BERL's estimates of benefits including GDP and employment by sector.

	2019	2020	2021	2022	….	2026	….	2031
Expenditure (2018$m)	17.1	24.0	25.3	14.3	….	16.8	….	20.7
GDP (2018$m)	5.9	7.5	12.7	9.5	….	10.9	….	13.2
Employment: Construction (FTEs)	66	85	71	0	….	0	….	0
Employment: Tourism (FTEs)			34	59	….	68	….	82
Employment: Other Industries (FTEs)			39	54	….	59	….	68
Employment: total all industries	66	85	144	113	….	127	….	149

The Museum Trust has provided a full Third Party Infrastructure Funding application, which is of high quality and detail. The Museum Trust and Te Whare Taonga have shown a good track record of delivery and fundraising. The table below shows the infrastructure funding requested for the exhibition development (note this excludes the $53.5 million raised for the building and $1.2 million of operating component of the exhibition development project)

	2021/22 $000	2022/23 $000	2023/24 $000	Total
Bay Trust		300.0		300.0
Ministry of Culture & Heritage	50.0	100.0	50.0	200.0
Lottery Environment & Heritage		215.0		215.0
Grant requested from BOPRC	195.8	3,625.7	278.4	4,100.0
TOTAL INFRASTRUCTURE FUNDING	245.8	4,240.7	328.4	4,815.0

Rotorua Lakes Council and Te Whare Taonga Staff propose that BOPRC's contribution be funded via a targeted rate for the region (excluding Rotorua as they already pay via RLC rates). In return, they would provide free access to residents from the wider Bay of Plenty when Te Whare Taonga re-opens.

While this application has many strengths including the robust case put forward, substantial co-funding, and economic benefit aligning with Councils Community Outcomes and KPIs for job growth; there are also complicating factors.

Without development of a Regional Spatial Plan and funding approach it is difficult to determine the appropriate balance between regional and local funding, especially as the BERL economic analysis is focussed on district, rather than region-wide, benefits. In addition, Council has previously declined museum funding in Tauranga (and has a current Western Bay/Tauranga Heritage CIF application) and funding Te Whare Taonga o Te Arawa may set a precedent/expectation for Council to fund other heritage projects that do not have the same level of economic analysis.

Instead of an approve/decline approach, Council could also consider compromise approaches such as agreeing a lower grant (such as the $200,000) requested for 2021/22 without prejudice to consideration of further funding as part of future Annual Plans as the policy for consideration of Regional Benefit becomes clearer.

This would also allow for consultation on the specifics of a targeted rate should Council choose to consider this funding mechanism.

5. Considerations

5.1 Risks and Mitigations

The impact of new legislative requirements from RMA reform are being investigated, and the proposed approach to the Eastern Bay Spatial Plan are intended to better understand the risks and issues.

The risks associated with each third party infrastructure funding request are noted in the evaluation of these.

5.2 Climate Change

Spatial Planning under the proposed Strategic Planning Act is intended to partially address the risks from Climate Change in conjunction with the proposed Climate Change Adaptation Act.

There is no direct impact on Climate Change from the third party infrastructure funding requests, however, rising sea and water levels may impact on wastewater reticulation in the future.

5.3 Implications for Māori

Regional Council has received a number of requests for funding iwi/hapū groups through the Long Term Plan submission process which are discussed in a separate paper. Requests in this area, and Council's requirement for Māori participation, are likely to continue to increase particularly in light of the RMA reform intentions to require decision makers to 'give effect to' the principles of Te Tiriti o Waitangi and for a more effective role for Māori including representation of Mana Whenua on regional Spatial Planning and Joint Planning committees.

Council may need to consider a more consistent approach to kaupapa Māori funding based on advice from Komiti Māori when the legislative requirements and government's support for this area is more clear.

Community Engagement

INFORM **Whakamōhio**	To provide affected communities with balanced and objective information to assist them in understanding the problems, alternatives and/or solutions.

The topics raised in this paper arise from submissions received as part of Long Term Plan 2021-2031.

5.5 Financial Implications

There is no financial impact if the recommendations are accepted. Any funding for third party funding requests would need to come from reserves or borrowing resulting in foregone interest revenue.

6. Next Steps

Staff intend to work collaboratively to scope the work required to update the Eastern Bay Spatial plan and would assist with re-submission of funding requests Te Whare Taonga o Te Arawa and Matatā Wastewater Reticulation.