

Regional Council

Reports distributed under separate cover for the meeting of the Regional Council on Tuesday, 2 June 2020 commencing at 9.30 am.

This meeting is open to the public. Public are invited to attend the meeting at the Regional Council premises, Council Chambers, 1 Elizabeth Street, Tauranga

Council

Membership

Chairperson	Chairman Doug Leeder
Deputy Chairperson	Cr Jane Nees
Members	All Councillors
Quorum	Seven members, consisting of half the number of members
Meeting frequency	Six weekly or as required for Annual Plan, Long Term Plan and other relevant legislative requirements

Purpose

- Enable democratic local decision-making and action by, and on behalf of, Bay of Plenty communities.
- Meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.
- Set the overarching strategic direction for Bay of Plenty Regional Council as an organisation.
- Hold ultimate responsibility for allocating financial resources across the Council.

Role

- Address Local Electoral Act matters and Local Government Rating Act matters.
- Oversee all matters relating to identifying and contributing to community outcomes.
- Consider and agree on matters relating to significant new activities or areas of involvement such as infrastructure which are not the responsibility of a specific committee.
- Provide regional leadership on key issues that require a collaborative approach between a number of parties.
- Review and decide the Council's electoral and representation arrangements.
- Consider issues of regional significance which are not the responsibility of any specific standing committee or that are of such regional significance/high public interest that the full Council needs to decide on them.
- Adopt Council's Policy on Significance and Engagement Policy.
- Develop, adopt and implement the Triennial Agreement, Code of Conduct and Standing Orders.

- Consider and agree on matters relating to elected members' remuneration.
- Appoint the Chief Executive, and review their contract, performance and remuneration at least annually.
- Approve all delegations to the Chief Executive, including the authority for further delegation to staff.
- Oversee the work of all committees and subcommittees.
- Receive and consider recommendations and matters referred to it by its committees, joint committees, subcommittees and working parties.
- Approve membership to external bodies and organisations, including Council Controlled Organisations.
- Develop, adopt and review policies for, and monitor the performance of, Council Controlled Organisations.
- Monitor and review the achievement of outcomes for the Bay of Plenty Community.
- Review and approve strategic matters relating to the sale, acquisition and development of property for the purposes of meeting Council's organisational requirements and implement Regional Council policy.
- Address strategic corporate matters including property and accommodation.
- Consider and agree on the process to develop the Long Term Plan, Annual Plan and Annual Report.
- Adopt the Long Term Plan, Annual Plan and budgets variations, and Annual Report.
- Adopt Council policies as required by statute (for example Regional Policy Statement and Regional Land Transport Strategy) to be decided by Council or outside of committee delegations (for example infrastructure policy).
- Develop, review and approve Council's Financial Strategy and funding and financial policies and frameworks.
- Institute any proceedings in the High Court that are not injunctive proceedings.
- Exercise the powers and duties conferred or imposed on Council by the Public Works Act 1981.

Delegations from Council to committees

- Council has a role to monitor the functioning of all committees.
- Council will consider matters not within the delegation of any one Council committee.
- Council may at any time, revoke or modify a delegation to a Council committee, either permanently, for a specified time or to address a specific matter, if it considers there is good reason to do so.
- The delegations provided to committees may be further delegated to subcommittees unless the power of further delegation is restricted by Council or by statute.
- It is accepted in making these delegations that:
- The committees, in performing their delegated functions, powers or duties, may, without confirmation by the Council, exercise or perform them in a like

manner and with the same effect as the Council itself could have exercised or performed them.

- The delegated powers given shall at all times be subject to their current policies and principles or directions, as given by the Council from time to time.
- The chairperson of each committee shall have the authority to exercise their discretion, as to whether or not the delegated authority of the committee be used where, in the opinion of the chairperson, circumstances warrant it.

Powers that cannot be delegated

Under Clause 32 Schedule 7 of the Local Government Act 2002, Council must make the following decisions:

- Make a rate.
- Make a bylaw.
- Borrow money or purchase or dispose of assets, other than in accordance with the long-term plan.
- Adopt the long-term plan, annual plan, or annual report.
- Appoint a chief executive.
- Adopt policies required to be adopted and consulted on under the Local Government Act 2002 in association with the long-term plan or developed for the purpose of the local governance statement.
- Adopt a remuneration and employment policy.

Reports Distributed Under Separate Cover – Regional Council, Tuesday 2 June 2020

Recommendations in reports are not to be construed as Council policy until adopted by Council.

1 Reports

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2 Public Excluded Section 67

Resolution to exclude the public

THAT the public be excluded from the following parts of the proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General Subject of Matter to be Considered	Reason for passing this resolution in relation to this matter	Grounds under Section 48(1) LGOIMA 1987 for passing this resolution
9.1 Appointment of Directors to Council Controlled Organisations	To carry out commercial activities	Good reason for withholding exists under Section 48(1)(a)

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Reports



Report To: Regional Council
Meeting Date: 02 June 2020
Report From: Mat Taylor, General Manager, Corporate

Annual Plan 2020/21 Deliberations - Budget Update

Executive Summary

This report provides an update on Council's Annual Plan 2020/21 Draft Budget which has been updated to incorporate the latest forecasts for 2019/20 and revised estimates for 2020/21. The budget changes include the consequential impacts of New Zealand's COVID-19 lockdown and recent easing to Alert Level Two.

The updated Annual Plan 2020/21 Draft Budget includes:

- Operating expenditure of \$145 million, which is \$10 million *lower* than the Information Document.
- Capital expenditure of \$41.3 million, which is \$1.4 million *higher* than the Information Document.
- Total real rates revenue *increase* of 0.6%. This is made up of a general rates increase of 0% and a targeted rates increase of 1.2%. The total real rates revenue increase is 0.6% *lower* than the 1.2% increase proposed in the Information Document, and 2.2% lower than the 2.8% increase included in Year 3 of the Long Term Plan 2018-2028.
- An unbalanced budget as set out in the Long Term Plan 2018-2028 and Annual Plan 2020/21 Information Document.
- A net contribution from reserves to fund operating expenditure of \$9.6 million, which is \$6 million *lower* than the \$15.6 million proposed in the Information Document. This includes a forecast contribution from the Equalisation Reserve of \$3.1 million, which is \$2.8 million *lower* than the Information Document.

These figures are *before* Council considers the deliberations issues and new requests for operating funding summarised in section 3.1.

The updated draft budget includes efficiency savings of \$3.1 million, which is \$2.3 million higher than the \$0.8 million efficiency target proposed in the Information Document. As New Zealand transitions to low/no community transmission of COVID-19, Council's focus in 2020/21 is on supporting the region to recover, and to ensure the community thrives, '*Thriving Together – mō te taiao, mō ngā tāngata*'. Any financial savings Council can make could be used to support the communities' recovery from the impact of COVID-19, primarily

through job creation, or to lessen the requirement for reserves use to fund operating expenditure.

As part of Annual Plan 2020/21 deliberations, several new initiatives are recommended at a forecast operating cost of \$1.9 million in 2020/21. Additional capital budget is recommended for Flood Protection and Control of \$10.1 million in 2020/21 and \$3.3 million in 2021/22 with additional impacts for the next Long Term Plan 2021-2031.

Staff will present to Councillors at the meeting on how these initiatives align with the recent changes in Council's operating environment, and the Long Term Plan 2018-2028 Strategic Framework, which includes the Four Wellbeings. Council will need to decide if it will fund these additional services or make any other changes as part of deliberations, and consider the overall impact on ratepayers in 2020/21 onwards.

The proposed treasury management activities for 2020/21 will be reviewed by the Risk and Assurance Committee on 15 June 2020 and recommended for Council approval on 25 June 2020 as part of the adoption of the Annual Plan 2020/21.

Council's financial management approach through the development of the Annual Plan 2020/21 is to give certainty to people in the Bay of Plenty, to help to relieve some of the rates pressure that some territorial local authorities in our region are facing when looking at setting rates in this unprecedented time.

This report seeks Council approval in principle as to the level of budgeted increases in expenditure and use of reserves to fund service delivery in 2020/21 and that this is financially prudent as it lessens the impact on ratepayers in the current economic situation. Following the meeting, an updated Annual Plan 2020/21 Draft Budget for adoption will be prepared. Council will adopt an Annual Plan 2020/21 and set rates on 25 June 2020.

Recommendations

That the Regional Council:

- 1 Receives the report, Annual Plan 2020/21 Deliberations - Budget Update;**
- 2 Notes the overall financial position for draft Annual Plan 2020/21 as set out in this report.**
- 3 Notes the updated Annual Plan 2020/21 Draft Budget set out in this report. This includes a total real rates revenue increase of 0.6%, this is 0.6% lower than the 1.2% total rates increase forecast in the Annual Plan 2020/21 Information Document and that this is before consideration of the deliberation issues and staff recommendations.**
- 4 Notes that \$2.3 million of operational cost savings have been identified in the 2020/21 draft budget,**
- 5 Approves the draft budget changes since Council released its Annual Plan 2020/21 Information Document to be incorporated into the draft Annual Plan 2020/21 for adoption and which includes a *decrease* in budgeted operating expenditure of \$10 million and an *increase* in budgeted capital expenditure of \$1.4 million in 2020/21 as set out in this report.**

- 6 Approves lower the Minor Rivers and Drainage targeted rates in 2020/21 as set out in Section 3 of this report are to be incorporated into the draft Annual Plan 2020/21 for adoption.**
- 7 Gives direction on the overall funding approach for the Annual Plan 2020/21 and the proposed use of reserves as discussed in this report, and notes the forecast contributions from reserves to fund operating expenditure in 2020/21 as set out in Section 6 of this report.**
- 8 Notes the proposed changes in treasury management activities for 2020/21 will be reviewed by the Risk and Assurance Committee in June 2020 and recommended for Council approval on 25 June 2020 as part of the adoption of the Annual Plan 2020/21. This includes the recommended updates to Council's Treasury Policy and the Statement of Investment Policy and Objectives for Toi Moana Trust.**
- 9 Approves the proposed targets for the Toi Moana Trust Statement of Intent to 30 June 2021, as set out in Section 6 of this report.**
- 10 Notes the proposed changes to Local Government Funding Agency foundation policies as set out in Section 6 of this report.**
- 11 Approves the recommendation to make two minor changes to the constitution of Quayside Holdings Limit in order to comply with NZX updated Listing Rules and delegates to the Chief Executive the authority to execute the resolution on Council's behalf.**
- 12 Notes that at the Annual Plan 2020/21 adoption meeting on 25 June 2020, Council will be required to resolve that it is financially prudent to continue to set an unbalanced budget which means that operating expenditure is higher than operating revenue. Council is contributing to third party infrastructure projects and as part of the Long Term Plan 2018-2028, Council resolved that it was financially prudent to set an unbalanced budget as the infrastructure grants are better funded from reserves rather than rates increases. Council is proposing to apply reserves balances to reduce rates (general and targeted) in order to lessen the impact on ratepayers in 2020/21. The proposed level of use will lessen the impacts of the current economic situation on community well-being, and financial prudence benchmarks are maintained.**

1 Background

Following a series of workshops and meetings, Council adopted the Annual Plan 2020/21 Te Mahere ā-Tau Information Document which it released for community feedback in April 2020, shortly after New Zealand entered a severe COVID-19 lockdown.

Through the development of the draft Annual Plan 2020/21, Council has begun to address areas of necessary investment and operational improvements. The Annual Plan 2020/21 Information Document signalled the importance of continuing this investment in the current economic climate.

The Information Document presented the draft budget for the third year of the LTP and proposed a total real rates revenue increase of 1.2%. This included a 0% general real rates revenue increase, and no change to fees and charges. Council informed the

community that it could achieve this by utilising financial reserves and maintaining the internal efficiency targets.

The draft budget included a contribution from reserves of \$15.6 million to fund operating expenditure, of which \$5.9 million was from the Equalisation Reserve to reduce the amount Council needs to collect in regional general rates in 2020/21.

Council's financial management approach through the development of the Annual Plan 2020/21 is to give certainty to people in the Bay of Plenty, and to help to relieve some of the rates pressure that some territorial local authorities (TLAs) in our region are facing when looking at setting rates in this unprecedented time.

2 Introduction

This report provides an update on Council's Annual Plan 2020/21 Draft Budget which has been updated to incorporate the latest forecasts for 2019/20 and revised estimates for 2020/21. The budget changes include some of the consequential impacts of New Zealand's COVID-19 lockdown and recent easing to Alert Level Two where practicable to forecast.

As set out in the *Introduction* report to this deliberations agenda, New Zealand is transitioning to low/no community transmission of COVID-19, and the focus of Council is on supporting the region to recover, and to ensure the community thrives, '*Thriving Together – mō te taiao, mō ngā tāngata*', seizing the opportunity for transformational change, transitioning to a low carbon economy and reducing the impact of climate change more quickly than originally forecast.

In the intervening months since the Information Document was released for public feedback, staff have completed a detailed review of the draft budgets and identified a range of operational improvements which will help to ensure Council continues to deliver value to the Community.

To date, operational savings and efficiencies of \$2.3 million have been incorporated into the updated draft budget. These and other budget changes in the updated draft budget have reduced the contribution needed from the Equalisation Reserve from \$5.9 million to \$3.1 million.

Through the deliberations issues reports in the agenda, several new initiatives are recommended to Council which have financial implications in 2020/21 and the next Long Term Plan 2021-2031.

Staff will present at the meeting on how these initiatives align with the recent changes in Council's operating environment, and the evaluation against the Long Term Plan 2018-2028 Strategic Framework, which includes the Four Wellbeings. Staff recommend additional operating expenditure of \$1.9 million in 2020/21, and capital expenditure for Flood Protection and Control of \$10.1 million in 2020/21 and \$3.3 million in 2021/22.

This report consists of:

- Budget Update – incorporating changes made to Year 3 of the Long Term Plan (LTP) 2018-2028 since the Information Document which include budgeted expenditure carry-forwards and efficiency savings; and a summary of the new budgeted expenditure requests. Refer to Section 3.

- Rates Update – incorporating forecast rates revenue increases in 2020/21 and rates limits; and an update in relation to rates collection and rates setting arrangements in 2020/21. Refer to Section 4.
- Reserves Update – incorporating audited reserves balances as at 1 July 2019, forecast available reserves for the year ending 30 June 2020, and proposed reserves use in 2020/21. Refer to Section 5.
- Treasury Update – incorporating changes to forecast borrowings and investment management activities in 2020/21 since the Information Document. This update also includes: the draft Statement of Intent for the Toi Moana Trust; an update on the changes proposed in the Statement of Investment Policy and Objectives for Toi Moana Trust; constitutional changes required for Quayside Holdings Limited (Quayside); and changes for the Local Government Funding Agency (LGFA) which require changes to Council’s Treasury Policy. Refer to Section 6.

In this report staff are seeking approval in principle from Councillors as to the level of budgeted increases in expenditure and the overall use of reserves to fund specific work. This approach will help to reduce the amount of rates collected and lessen the impact on ratepayers in 2020/21 given the current economic climate.

3 Annual Plan 2020/21 Budget Overview

The updated Annual Plan 2020/21 includes a *decrease* in operating expenditure to \$145 million which is \$10 million *lower* than the Information Document and an *increase* in capital expenditure to \$41.3 million which is \$1.4 million *higher* than the Information Document. The tables show the progress in preparing the overall budget for 2020/21, and further explanations of the changes are set out below.

Table 1 Updated Annual Plan 2020/21 Draft Budget – Deliberations

Operating Budget	LTP YR3 \$000	DAP ID \$000	DAP \$000	Annual Plan Variance ID to DAP \$000	
Operating Revenue	138.5	139.4	135.4	(4.0)	Lower revenue
Operating Expenditure	144.7	155.0	145.0	10.0	Lower expenditure
Surplus/(Deficit)	(6.2)	(15.6)	(9.6)	6.0	Lower net deficit

Capital Budget	LTP YR3 \$000	DAP ID \$000	DAP \$000	Annual Plan Variance ID to DAP \$000	
Capital Expenditure	30.7	39.9	41.3	(1.4)	Higher expenditure
Capital Revenue	7.1	7.8	7.1	(0.7)	Lower revenue
Borrowings	23.6	32.1	34.2	(2.1)	Higher borrowings

Table 2 Updated Real Rates Forecast – Deliberations

Real Rates Budget	LTP YR3	DAP ID	DAP	Annual Plan Variance ID to DAP	
General Rates	2.7%	0.0%	0.0%	0.0%	No change
Targeted Rates	2.8%	2.3%	1.2%	(1.1%)	Decrease
Total Rates	2.8%	1.2%	0.6%	(0.6%)	Decrease

This report details changes to the draft budget since the public release of the Annual Plan 2020/21 Information Document.

The updated draft budget includes an unbalanced budget as set out in the LTP 2018-2028 and AP 2020/21 Information Document. It assumes the contribution from reserves to fund operating expenditure decreases to \$9.6m (the forecast net operating deficit), of which \$3.1m is from the Equalisation Reserve, as noted above.

This is resulting in a *decrease* in the total real rates revenue increase as set out in the Information Document from 1.2% to 0.6%. This is made up of a 0% general real rates revenue increase and a targeted real rate revenue increase of 1.2%. The updated total real rates revenue increase of 0.6% is *lower* than the 2.8% increase that was included in Year 3 of the Long Term Plan 2018-2028.

Important note

These figures are before Council considers the deliberations issues and new requests for operating funding summarised in the following section.

3.1 Summary of new expenditure recommended in Deliberations reports

The recommendations for new expenditure are summarised in Table 3 and are included in the accompanying deliberations reports and/or addressed within this report.

Table 3. New operating and capital expenditure, and those requests for funding that are recommended by staff

Report	Funding Request	Recommended New Request 2020/21 \$000	Recommended New Request 2021/22 \$000	Staff Recommendations as set out in the agenda reports
Community Views	Toi Kai Rawa Trust	250		<i>Refer two community funding requests to regional recovery programme - Toi Kai Rawa \$150,000 + Toi EDA \$270,000</i>
Regional Recovery	Project costs \$250,000, sustainable procurement \$50,000	300		<i>Agree in principle to consider future reserves funding for job creation once project work completed</i>
Civil Defence Emergency Management	COVID-19 related costs	400		<i>Fund \$400,000 from Emergency Management reserves</i>
Flood Protection and Control (funded 80% targeted rates and 20% general rates)	Rangitāiki Floodway Stage 6 depreciation/finance costs	685	1,051	<i>Awaiting funding decision from central Government. Request to lower rates impact in 2020/21.</i>
	Kaituna Mole depreciation/finance costs	162	310	
	Rock supply strategy	173	290	<i>Indicative cost estimates. Procurement plan for new strategy will be developed</i>
Minor Rivers & Drainage	Net reduction in works and cost estimates	(312)		<i>Lower targeted rates per revised submission on behalf of scheme</i>

Motiti Island	Implement Motiti protection Area provisions	41		
Regional Development	Western Bay urban growth/ transport planning	250		
Total New Operating Expenditure Requests		1,949	1,651	Funded from general funds, targeted rates and/or reserves
Flood Protection and Control	Rangitāiki Floodway Stage 6	8,355	2,800	
	Kaituna Mole	1,800	564	
Total New Capital Expenditure Requested		10,155	3,364	Funded from borrowings

There is \$1.9 million new operating expenditure recommended by staff in 2020/21, approximately \$1.0 million relates to increases in general funding or 3.7% increase in general rates. Council would have sufficient available funds in the Equalisation Reserve as at 30 June 2020, which could be used to fund this expenditure. This would enable Council to maintain a 0% general rates increase as proposed in the Information Document.

The new capital expenditure request for Flood Protection and Control is \$10.1 million in 2020/21 and \$3.3 million in 2021/22; this would be funded from borrowings in the first instance. Staff request Council to consider lowering the rates impact in 2020/21 particularly as Council has submitted a funding request to central Government for the Rangitāiki Floodway Stage 6 Project and at the time of writing this report (May 2020) a funding decision had not been made.

3.1.1 Submission for the Minor Rivers and Drainage Schemes

A submission has been received on behalf of the Minor Rivers and Drainage Schemes Managed by the Integrated Catchments Management Group; a copy of the submission is included in the *Community Views* report included in the agenda.

This submission sets out an updated table of recommended rates for the Minor Rivers and Drainage Schemes. This is developed in consultation between and with the liaison person and/or caretaker from each of the communal pumping schemes (100% funded by targeted rates), who have agreed to the recommendations to amend the budgets for 2020/21.

Overall the proposed targeted rates for 2020/21 are considerably lower than both the forecast in Year 3 of the LTP 2018-2028, and the 2020/21 estimates included in the Information Document, however, they are slightly higher than the rates set in 2019/20.

The individual communal pump scheme budgets are typically quite variable as operating costs fluctuate depending on repairs and replacements, and electricity consumption. Staff recommend reducing the schemes forecast operating expenditure by \$312,000 in 2020/21, and including the proposed amended targeted rates for the 37 minor schemes in the Annual Plan 2020/21 Draft Budget for adoption on 25 June 2020.

3.2 Current financial position 2019/20

Comparing previous financial performance with proposed budgets is an important step in the financial management process. Table 4 compares the current year revised Annual Plan 2019/20 and the 2019/20 forecast (as at May 2020), to the updated Annual Plan 2020/21 Draft Budget.

Table 4 Comparison of DAP 2020/21 with 2019/20 Budget and Forecast

	Annual Plan 2019/20 \$000	Forecast 2019/20 \$000	DAP 2020/21 \$000
Operating Budget			
Operating Revenue	134.1	132.2	138.0
Operating Expenditure	143.7	130.9	145.0
Surplus / (Deficit)	(9.6)	1.3	(7.0)
Capital Expenditure	59.7	37.7	41.3

Revenue and expenditure for the current financial year has been reforecast throughout the year and reported to Council as part of the in-year Arotake performance monitoring process. Arotake Q3 was prepared and presented to Council on the 14 May 2020.

The main 2019/20 forecast underspends which impact draft Annual Plan 2020/21 are as follows:

- Rotorua Te Arawa Lakes programme which is partly funded by Ministry for the Environment (MfE), due to delays with the land use change incentives work, this has been carried forward to 2020/21 in the first instance.
- Delivery of the efficiency target attributed to several fit for purpose reviews, along with savings in corporate services and managing vacancies. COVID-19 savings associated with resourcing (staff vacancies, reduced activity by contractors, consultants and legal expenses), along with underspends on variable costs such as accommodation, catering, and fuel. These ongoing operational improvements to the way Council works are flowing through to 2020/21 estimates.
- Capital expenditure on the following major projects: Buildings Upgrade Project as the programme delivery has been adjusted, this includes consideration of changes to the plans for Wallingford House in Tauranga; and Rivers and Drainage works including the Rangitāiki Floodway Project due to COVID-19 impacts, and rock supply constraints in the Flood Repair Project in the eastern Bay of Plenty. Prior to COVID-19 Council had forecast to deliver 85% of its planned capital works, this is now 63% in 2019/20 and this flows to 2020/21 and the following year.

3.3 Operating Budget Changes

As part of the development of the updated Annual Plan 2020/21 Draft Budget there have been a number of changes and amendments to Council's forecast operating expenditure.

The updated Annual Plan 2020/21 Draft Budget includes a *decrease* in operating expenditure to \$145 million, which is *\$10 million lower* than the Information Document. The changes to operating expenditure budgets have resulted from:

- Council decisions made after the adoption of the Information Document for public feedback.
- Estimating likely expenditure budget carry forwards from 2019/20 to 2020/21 or LTP 2021-2031.
- Adjusted expenditure due to better information, along with internal staff reviews of budget assumptions resulting in increased efficiency targets.
- A risk based review of the deliverability of the 2020/21 draft budget given COVID-19 uncertainties and impacts, and Council's regional recovery work.

Table 5 shows the changes in the 2020/21 operating expenditure budget since the Information Document was released for public feedback.

Table 5 Summary of Operating Expenditure decreases since Information Document

Operating Expenditure	DAP 2020/21 \$000	Budget Assumption
Rotorua Te Arawa Lakes land use change incentives	6,860	Budget moved from 2020/21 to 2021/22 (funded 50% by MfE)
Depreciation	510	Lower depreciation associated with changes to timing of capital projects
Efficiencies	2,331	Operational improvements including catering, travel, publications, resources
Treasury	327	Lower net treasury movement due to changes in timing of capital and lower interest rates
Decrease in Operating Expenditure	10,028	Changes since Information Document

3.3.1 Efficiency targets update

Staff have reviewed all draft budget items for 2020/21 to ensure Council's services and functions are efficient and effective, particularly in response to COVID-19 and new ways of working. Any financial savings Council may make, could be used to support the communities' recovery from the impact of COVID-19, primarily through job creation.

Council has included additional efficiency savings in the updated draft budget of \$3.1 million, this is *\$2.3 million higher* than the \$0.8 million included in the Information Document.

While Council is focused on improving its efficiency and effectiveness, it will still provide the same levels of service to the community. This includes not recommending any reductions to funding for community projects or grants.

Table 6 summarises the changes in Council's 2020/21 efficiencies and savings.

Table 6 Summary of Efficiency Savings since Information Document

Operating Expenditure	DA 2020/21 \$000	Budget Assumption
Catering and Hospitality	91	Increased use of e-meetings
Resources - Contractors and Consultants	120	Risk based review of work programme
Resources - Staffing	471	Management of recruitment / vacancies
General Expenses	481	To better reflect 2019/20 trend
Property Expenses	292	Lower rental costs \$100,000, plus improved fleet management, vehicle and fuel costs
Travel	316	No international travel, 50% reduction in domestic travel
Publications	560	Paperless work environment - lower internal publications, agenda, courier, and postage
Decrease in Operating Expenditure	2,331	Changes since Information Document

3.4 Capital budget changes

The forecast capital expenditure in the updated Annual Plan 2020/21 Draft Budget is \$41.3 million, and this is \$1.4 million lower than the Information Document. Council has reviewed its capital works programme to ensure that proposed borrowings are in line with Council's ability to deliver on a challenging programme of work in 2020/21.

The changes in delivery of Council's capital programme, which has been impacted by COVID-19 and several other project related delays, has led to net changes in the capital expenditure estimates in 2020/21 and 2021/22 as set out in Table 7.

Table 7 Summary of Capital Expenditure decreases since Information Document

Group of Activities	DA 2020/21 \$000	Budget Assumption
Flood Protection and Control	(2,830)	Rangitāiki-Tarawera River Scheme
	(875)	Whakatāne-Tauranga Rivers Scheme
	(370)	Programme Works Waioeka Otara
	2,022	Kaituna Works - \$1.8 million for Ford Road Pump to 2021/22
	1,090	Flood Damage – earlier than planned delivery in 2019/20, Utuhina Stream \$0.6 million in 2021/22
Corporate	408	Information Technology various projects
Passenger Transport	(869)	Regional Integrated Ticketing System
Net decrease in Capital Expenditure	1,424	Changes since Information Document

4 Rates Update

4.1 Rates revenue

The Annual Plan 2020/21 Information Document included an increase in total real rates revenue of 1.2%. This is the less than the 2.8% increase that was included in Year 3 of the Long Term Plan 2018-2028.

The updated Annual Plan 2020/21 Draft Budget includes a 0.6% increase in total real rates revenue. This is made up of a general rates increase of 0% and a targeted rates increase of 1.2%.

Table 8 provides a summary of the budgeted rates revenue through the development of the Draft Annual Plan 2020/21, incorporating comparisons with Annual Plan 2019/20 and Year 3 of the LTP 2018-2028.

Table 8 Budgeted Rates Revenue

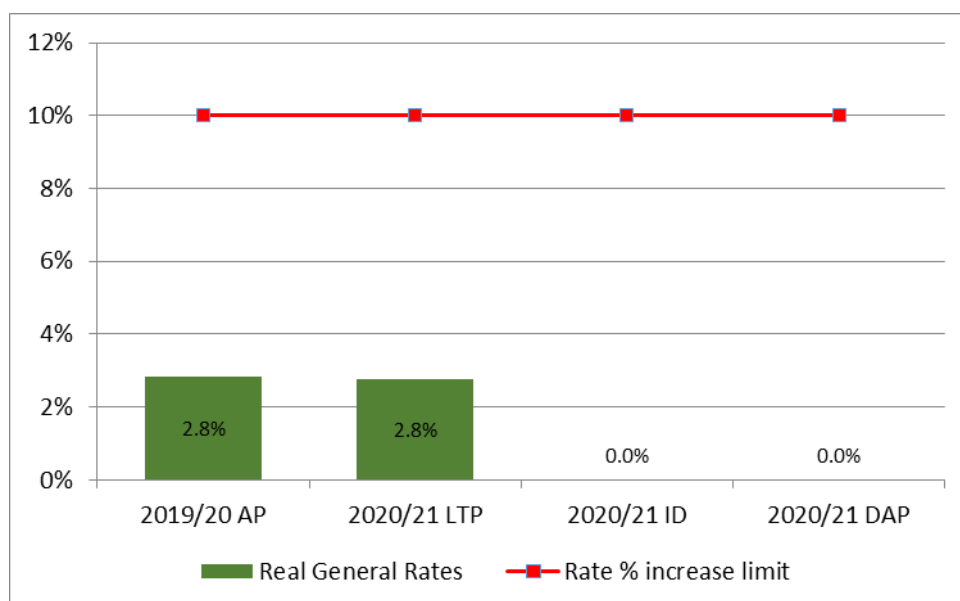
	2019/20 AP \$000	LTP YR3 \$000	DAP ID \$000	DAP \$000
General Rates	27.5	28.9	28.3	28.3
Targeted Rates	29.4	29.2	30.8	30.6
Total Rates	56.9	58.1	59.1	58.9

4.2 General rates

General rates revenue has a planned increase from \$27.5 million in 2019/20 to \$28.3 million in the updated Annual Plan 2020/21 Draft Budget. For an average property, depending on location, the 2020/21 forecast annual increase in general rates is up to \$8 due to inflation and growth, for a median property.

The general rule of thumb in this Annual Plan is for every \$280,000 increase in operating expenditure, this leads to an approximate 1% increase in general rates.

Figure 1 Budgeted General Real Rates Revenue and Rates Limit

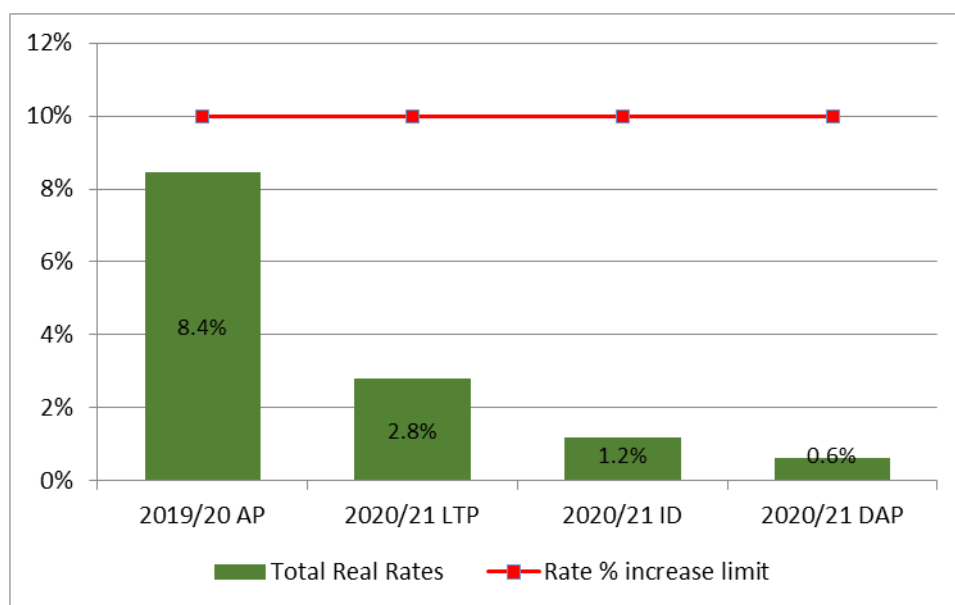


4.3 Total rates

On the basis of a 2.8% total real (i.e. excluding growth and inflation) rates increase, as set out in Year 3 of the LTP 2018-2028, various changes have occurred in revenue, expenditure, and the use of reserves which Council has agreed to through the development of the draft Annual Plan 2020/21.

Figure 2 below shows the total real rates revenue increase in 2019/20 and the three 2020/21 comparisons (LTP Year 3, Information Document and Draft Annual Plan).

Figure 2 Budgeted **Total Real Rates Revenue and Rates Limit**



The LTP 2018-2028 required Council to show the Total Rates percentage limits, excluding the impact of growth and inflation, over the ten years. The 0.6% total real rates increase forecast in 2020/21 is the actual revenue increase from one year to the next, based on the \$58.9 million of total rates.

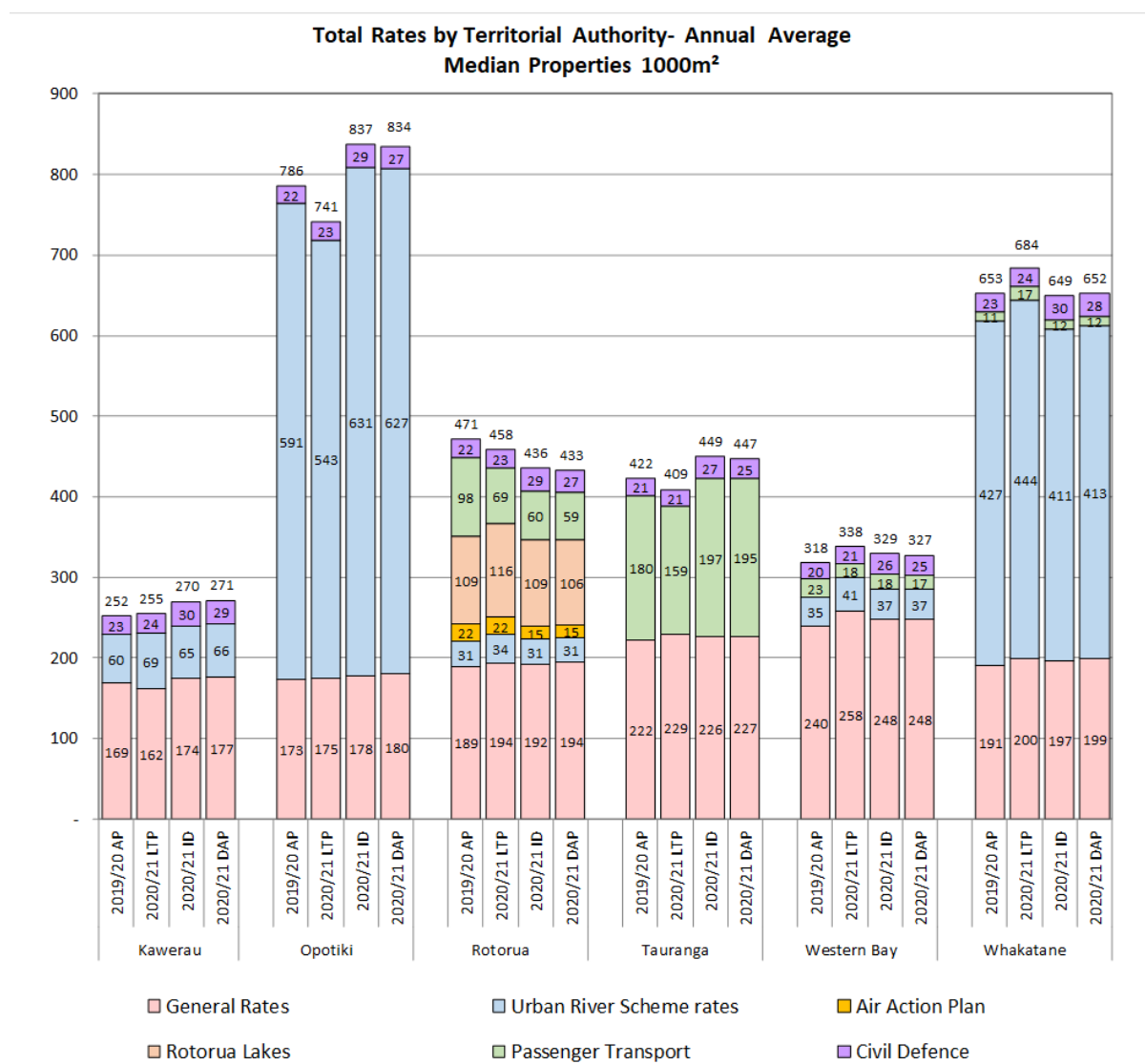
The annual average rates breakdown by district relates to an 'average' ratepayer is set out in Figure 3 and includes four comparisons:

- 2019/20 Annual Plan (current year)
- 2020/21 Rates as per Year 3 of LTP 2018-2028
- 2020/21 Rates as per the Information Document
- 2020/21 Rates as per the updated Annual Plan Draft Budget (proposed)

This shows the current estimated rates impact across all city/districts for median value properties. These rates estimates include the use of reserves as set out in the updated draft budget, and discussed in Section 6 of this report.

The average increase in targeted rates, which affects the total rates paid, depends on the area in which you live and the services received. In addition, property revaluations by Western Bay of Plenty District Council, Whakatāne District Council, Ōpōtiki and Taupō District Council will affect the final rates paid.

Figure 3 Total Rates by Territorial Authority – Annual Average Median Properties 1000m²



4.4 Rates collection

The seven TLAs in the Bay of Plenty are a rates collection agent for Bay of Plenty Regional Council; the TLAs collect and administer most rates on behalf of Council.

Each Council must adopt their own postponement and remission policies. In practice, councils' rating systems do not have the capability to apply different rating policies to just the TLA portion of rates assessed on a rating unit. This is why, in practice, regional councils have tended to adopt near identical rates remission and postponement policies to what the TLA has adopted, and this is the case for Bay of Plenty Regional Council.

For 2019/20, Tauranga City Council and Western Bay of Plenty District Councils have paid their agreed instalments for regional rates in 2019/20. The remaining territorial authorities have advised that they will be collecting Council's remaining 2019/20 instalments as per current policies, with the exception of the Rotorua Lakes Council

where up to a maximum of \$3 million of regional rates may be impacted by the new 2019/20 quarter four rates deferral initiative, resulting in a timing delay on Council's cash receipts. Council has confirmed that it has sufficient short term liquidity to address this situation. Overall, there appears to be a small impact in terms of increased remissions and write-offs relating to 2019/20 regional rates.

For 2021/21, staff have been discussing whether the TLAs are proposing any changes to their rates remissions and postponement policies. At the time of writing this report, staff are not aware of any new initiatives planned for 2020/21 in this regard.

Looking ahead to the next Long Term Plan 2021-2031, there is a current desire to investigate centralising the setting and collection of regional rates. Staff will be preparing a report for Council in August 2020 to consider the strategic context for change, which assesses several rates collections options with costs and benefits. The report will also consider any additional resources, capabilities and information technology infrastructure requirements.

4.5 Rates setting 2020/21

On 25 June 2020 Council will set the level of rates for the 2020/21 financial year. Council must set rates, due dates for the payment of rates and penalties in accordance with sections 23, 24, 57 and 58 of the Local Government (Rating) Act 2002.

Guidance issued by Local Government New Zealand and the Society of Local Government Managers for the COVID-19 Local Government Response encourages Councils to consider all options for supporting financially stressed ratepayers and supporting economic recovery. This guidance includes: shifting penalty dates; reducing penalty rates; introducing different payment cycles for ratepayers with seasonal income; and considering how best to implement any recent revaluation.

Staff have been discussing whether the TLAs are proposing any changes to their rates remissions and postponement policies. At the time of writing this report, staff are not aware of any new initiatives planned for 2020/21 in this regard, however there is a possibility that some TLAs may need to delay adoption of their Annual Plan or rates resolution as a result of responding to COVID-19 into 2020/21.

4.6 Rates instalment and penalty dates 2020/21

The Council's rates resolution must include the dates for each district's rates instalments, penalty assessments and penalty applications; and the penalty percentage rate. If the dates and penalty percentage do not match there could be a technical issue with collection. Council has requested that each TA provides these dates and penalty percentages by 11 June 2020.

It is possible for Council to amend the Rates Resolution through a subsequent full Council meeting, if any TA needs to set, or change the relevant dates or penalty percentage rate after BOPRC sets rates on the 25th June 2020.

4.7 Rates remissions and postponements 2020/21

Council has sought legal advice on options for implementing new rates remissions and postponements for ratepayers that have been financially affected by COVID-19. This legal advice has confirmed that amending rates remissions and postponement policies will require consultation under LGAs102 (4) (b).

If any TLA are considering a new or amended policy, Council may also have to consult on, and adopt, the policy so it can apply to Regional Council rates as well.

5 Reserves Update

Council has the ability to apply reserve balances to reduce rates (general and targeted) where the reserve balance is forecast to be available. The Equalisation Reserve holds the balance of previous and forecast general funds surpluses, and individual targeted rates reserves do the same for targeted rates.

These reserves balances can be used instead of increases in general or targeted rates in line with the funding ratios in the Revenue and Financing Policy.

The proposed reserve use and forecast remaining balances incorporated into the updated draft budget are shown in Table 9.

Table 9 Forecast Reserves

Reserve	Opening Balance 30/6/19 \$000	Council Approved 2019/20 \$000	Forecast Deposit 2019/20 \$000	Forecast Closing Balance 30/6/20 \$000	DAP 2020/21 \$000	Remaining Council Approved LTP 2021-2031 \$000	Forecast Available Balance \$000
Regional Fund	30,619	-	2,306	32,925	(3,000)	(20,750)	9,175
<i>Commitments include \$20 million Ōpōtiki Harbour Project and \$5 million for the Awatarariki Fanhead Manage Retreat of which \$2 million has been paid to Whakatāne District Council in 2019/20.</i>							
Equalisation Reserve	6,193	-	3,886	10,079	(3,111)	0	6,968
<i>Opening balance of \$6.1 million comprised \$3 million from Quaysides subvention payment in 2019/20, \$1.2 million from treasury, \$1.9 million other contributions. Modelled \$3.1 million use in DAP, this is lower than ID.</i>							
Public Transport Reserves	730	(431)	1,739	2,038	(1,425)	0	613
<i>Modelled \$1.4 million use in DAP.</i>							
Rivers and Drainage Works Reserve	2,805	(94)	896	3,607	0	0	3,607
<i>Available funding \$3.6 million in targeted rates reserves to lower targeted rates increases in each scheme including Rangitāiki-Tarawera.</i>							
Emergency Management Reserves	1,326	0	(263)	1,063	(450)	0	613
<i>Includes the Lifeline Reserve. Modelled \$450,000 approved use in ID/DAP. \$400,000 proposed through Deliberations.</i>							
Rotorua Te Arawa Lakes MfE Deed Funding Reserve	2,040	0	1,361	3,401	(3,000)	0	401
<i>Modelled use of \$3 million in DAP being 50% Ministry for Environment contribution to 2020/21 Rotorua Te Arawa Lakes land use change incentives.</i>							
Infrastructure Fund	15,516	0	(6,318)	9,198	(3,745)	(5,453)	0
<i>Fully allocated to regional infrastructure projects through previous Long Term Plans.</i>							
Total Reserves	59,229	(525)	3,607	62,311	(14,731)	(26,203)	21,377

The updated draft budget proposes an operating deficit of \$9.6 million. As this is proposed to be funded from reserves, there is no borrowing being applied to operating costs.

This is considered to be a prudent funding mechanism because reserve funds are available, all financial prudence benchmarks are maintained with the proposed use, and it is beneficial to minimise rates impacts due to the financial impacts of COVID-19.

Council will consider whether to formally resolve that this is financially prudent as part of adopting the Annual Plan 2020/21, pursuant to the Local Government Act (2002) s100 (2) on 25 June 2020.

6 Treasury Update

6.1 Introduction

The economic outlook has changed dramatically over the past few months due to COVID-19. The outlook for interest rates has declined to record lows, with the OCR being reduced to 0.25%. Borrowing rates have dropped by around 1%, with investment rates having only dropped between 0.25% and 0.5%, which is a net positive result for Council.

The objective of the Treasury Policy is to maximise returns while limiting risks. A key aspect of this is the establishment of the Toi Moana Fund. This was established to gain higher returns from investments than would be able to be achieved through Council directly investing. In this report, staff have recommended the performance targets that are proposed to be included for returns from the Toi Moana Trust fund.

The Local Government Funding Agency is also trying to assist Councils by making changes to its foundation policies and increase the debt limits. Council has pre-funded capital expenditure to provide certainty of funding. It is planned to continue this into 2020/21, with prefunding the capital works programme for 2021/22 and 2022/23.

In the report released in May 2020 by global credit rating agency Standard & Poors it was noted that the COVID-19 outbreak and subsequent government lockdown has delivered a severe economic and fiscal shock to New Zealand. Local government is expected to be affected through deterioration in budgetary measures. Weaker revenues, such as lower than previously budgeted rates increases in the current difficult economic environment will add to this pressure. Operating and capital expenses could also rise to address the crisis and to support the economic recovery. A more severe or prolonged economic downturn than Standard and Poors current expectations, would also exacerbate the weakening in the sectors operating performance and balance sheets.

At this stage, it is not anticipated that there will be any changes to Council's AA credit rating in 2020/21; Standard & Poors will provide a report on Council's annual rating review on 2 June 2020.

6.2 Treasury strategy 2020/21

The updated Annual Plan 2020/21 Draft Budget includes the arrangements for Council's external treasury programme as follows:

- Forecast borrowings of \$221 million as at 30 June 2021 as set out in the Information Document. This includes on-lending to Quayside of \$50 million, and additional borrowings to pre-fund capital works in 2021/22 and 2022/23 of \$30 million which Council approved in March 2020.
- Forecast investments of \$208 million which includes Council's Toi Moana Trust fund at a face value of \$45 million, and Quayside's \$50 million from the on-lending facility.

The Risk and Assurance Committee will review the Council's proposed treasury management activities at their meeting in June, and will recommend these to Council for approval as part of the Annual Plan 2020/21 adoption meeting on 25 June 2020.

6.3 Investments – Toi Moana Trust

6.3.1 Toi Moana Trust – Draft Statement of Intent 2020/21

Toi Moana Trust has been established as an investment Council Controlled Organisation (CCO). Council must set a Statement of Intent (SOI) incorporating the nature, scope, activities, and performance targets of Toi Moana Trust. This will be a stand-alone document from Quayside's SOI.

The Toi Moana Fund was established in the 2018-2028 Long Term Plan and at that time the policy objectives and performance targets were set. These objectives and targets are now being set within the SOI and SIPO framework and will be monitored and reviewed each year by Council. It is therefore recommend that Council approve the following targets in the Toi Moana Trust Fund SOI to 30 June 2021. See appendix 3 and 4.

SOI Performance Targets

Performance targets are effective for the year represented by this Statement of Intent. Target measures will therefore be assessed in full on or within 90 days after 30 June 2021. Council will receive monitoring reports of progress against performance targets during the year.

Ref	Objective	Measure
1.	Generate commercial returns across the Investment Portfolio.	Annual net cash flow return of 5%
2.	Capital preservation	Long term capital preservation over an initial period of seven years
3.	Investments must be in accordance with its Principles of Responsible Investment.	Investments must be screened from an ethical perspective and meet the following criteria. We must avoid investing in companies whose principal business activity is: <ul style="list-style-type: none"> • The manufacture and sale of armaments • The manufacture and sale of tobacco • The promotion of gambling.

6.3.2 Toi Moana Trust – Statement of Investment Policy and Objectives update

The purpose of a Statement of Investment Policy and Objectives ('SIPO') is to describe Council's investment policy and investment objectives for its Toi Moana Trust fund. It provides the policy framework for Council to effectively supervise, monitor and evaluate the management of the fund. Council must maintain a SIPO for the Toi Moana Trust.

The following proposed targets that will be in the full SIPO, which will be presented to the Risk and Assurance Committee in June 2020. See appendix 3 and 4.

6.3.3 Required rate of return

Careful consideration of cash flow requirements is essential to determine the required rate of return. To achieve the desired level of contributions to cash flow and liquidity needs, an assumed portfolio size of \$45 million; a return of 5.0% should be sufficient to meet Council's financial strategy.

6.3.4 Risk summary and selection of asset allocation

The table below summarises the Council's level of risk tolerance as measured by the three risk factors:

Risk Measure	Level of risk
Capacity to accept risk	Medium to high
Willingness to accept risk	Low
Required rate of return	High

Council's Toi Moana reserve liquidity and risk requirements are detailed below:

Reserve	Funds used for	Level of acceptable risk	Liquidity needs
Toi Moana reserve	Investment returns	Low	Low liquidity

Over the long term, the average rate of investment return is related to the level of risk and term of investments within the portfolio. The Toi Moana reserve requires low liquidity and therefore Council should receive a return premium because of the council's willingness to commit to investments for a longer fixed period than the other reserves.

Based on Councils required return, capacity and willingness to accept risk, it is recommended that a conservative portfolio is adopted which is suitable for a Medium level of risk.

6.4 Quayside Holdings Limited constitutional changes

New Zealand's Exchange (NZX) has updated the NZX Main Board/Debt Market Listing Rules. The new NZX Listing Rules came into effect on 1 January 2019, subject to certain transitional arrangements to give issuers time to comply with the new Listing Rules.

As part of its transition to the new Listing Rules, Quayside is required to adopt a constitution which complies with the new Listing Rules. Quayside identified a technical inconsistency between Quayside's constitution and the new Listing Rule 2.21.1(a).

Listing Rule 2.21.1(a) requires Quayside's constitution to provide the following:

Quayside will convene a meeting of perpetual preference share (PPS) holders if requested by PPS holders that have a combined nominal value of 5% or more of the nominal value of all the PPS on issue (in other words, Quayside must call a meeting if PPS holders holding 5% or more of the PPS request a meeting). {5% = \$10 million shares}.

Currently, the constitution provides that PPS holders may only call a meeting if there is a matter to be voted on. NZX has advised that PPS holders must be able to require the Quayside board to call a meeting, even if there isn't a matter to be voted on by the PPS holders. It was also noted that the constitution did not have a description of the face value of the PPS.

6.4.1 Recommendation

It is recommended the Bay of Plenty Regional Council Chief Executive be delegated authority to sign the special resolution on behalf of Council for the minor constitution change. See appendix 5.

The Resolution changes are as follows;

Change 1; inserting the following definition into clause 1.1: "Face Value means the nominal value of each perpetual preference share being \$1.00."

Change 2; replacing clause 6.3 with the following:

"6.3 Meeting of holders of perpetual preference shares

(a) A meeting of holders of perpetual preference shares entitled to vote on an issue:

(i) may be called at any time by the board or a person who is authorised by the constitution to call the meeting;

(ii) must be called by the board on the written request of the Administrative Agent given in accordance with the Options Deed.

(b) A meeting of holders of perpetual preference shares must be called by the board on the written request of holders of perpetual preference shares holding not less than 5% of the total Face Value of all perpetual preference shares on issue."

6.5 Local Government Funding Agency foundation covenants

6.5.1 Proposed LGFA change

To assist LGFA Council members in responding to the COVID-19 crisis, the Board of the New Zealand Local Government Funding Agency Limited (LGFA) has reviewed the financial covenants set out in its foundation policies.

The Board will recommend to shareholders, at a Special General Meeting to be held in June 2020, amendments to the net debt / total revenue foundation policy financial covenant that applies to local authority borrowers with a long-term credit rating of 'A' equivalent or higher.

The LGFA Foundation Policy Financial Covenants are as follows:

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<250%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

The Lending Policy covenants only apply to unrated Local Authorities or Local Authorities with a long term credit rating lower than 'A'

Currently, local authority borrowers with a long-term credit rating of 'A' equivalent or higher are required to maintain net debt / total revenue below 250%, unless a higher ratio is approved by shareholders. In respect of this financial covenant, the proposed changes are:

- for the current financial year ending 30 June 2020, 250% to continue to apply;
- for the financial years ending 30 June 2021 and 2022, 300% will apply; and
- for each of the next four years financial years, a decrease of 5% until 280% will apply for and from the financial year ending 30 June 2026.

6.5.2 Treasury Policy changes as a result of the LGFA changes

For Council to apply the proposed changes stated above the following changes are required to the Treasury Policy:

Debt ratios and limits

Total external debt levels in place will be managed within the limits detailed in the following table.

Ratio	
Net interest / Total revenue	<20%
Net debt / Total revenue	<250% <300%
Net interest / Annual rates and levies (debt secured under debenture)	<30%
Liquidity (liquid funds + committed funding / total external debt)	>110%

Revenue is defined as earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue.

Revenue excludes non-government capital contributions (e.g. developer contributions and vested assets).

Net debt is defined as total external debt less liquid financial deposits/investments.

Liquid funds are cash and cash equivalents defined as being:

- Overnight bank cash deposits
- Wholesale/retail bank term deposits no greater than 30 days
- Bonds or floating rate notes that have a long term credit rating of at least 'A-' and mature within 12 months. Wholesale/ retail bank term deposits linked to pre-funding of maturing term debt exposures

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

Financial covenants are measured on the Council only, not the consolidated group.

Disaster recovery requirements will be met through the liquidity ratio and contingency reserves.

6.5.3 Treasury Policy debt ratios and limits

At the inception of LGFA it was decided that Council would align its ratios and limits with LGFA's to ensure consistent compliance. Therefore headroom was calculated on 250% of total revenue. A majority of Councils also chose to align with LGFA at 250%.

The LTP 2018-2028 did not indicate the need for the full headroom for Council from its business as usual borrowings. By selecting the 250% level it gave Council available funds for any unexpected events that may occur, e.g. an event similar to April 2017 Floods in the Eastern Bay of Plenty.

The initial increase from 250% to 300% in the foundation policy covenant would be equal to *\$70 million increase*, approximately, to Council's implied debt limit.

6.5.4 Risks

Changing the debt limit does not immediately affect the current level of risk faced by Council. It does open Council to potentially higher future risk, given a higher borrowing capacity from the LGFA. Under the current control environment the level of risk only increases as actual net borrowing increases, which would only increase following Council approval.

This is also the case for Council's Credit Rating. The debt limit is not a standby facility and is therefore not used in the assessment of the Credit Rating, only the level of actual borrowing in place is used to assess the Rating.

6.5.5 Recommendation

It is recommended that Council continue to align its ratios and limits with the LGFA and amend the Treasury Policy to reflect the change (consultation is not required under LGA (2002) s102(5)). Although not currently needing the additional headroom, this change would give Council consistency of reporting and provide the Council group with more flexibility for strategic treasury decisions.

The LGFA hold a special meeting on 30 June 2020 with the CE delegated to vote on behalf of Council based on the delegation given at the Council meeting of 25 October 2011.

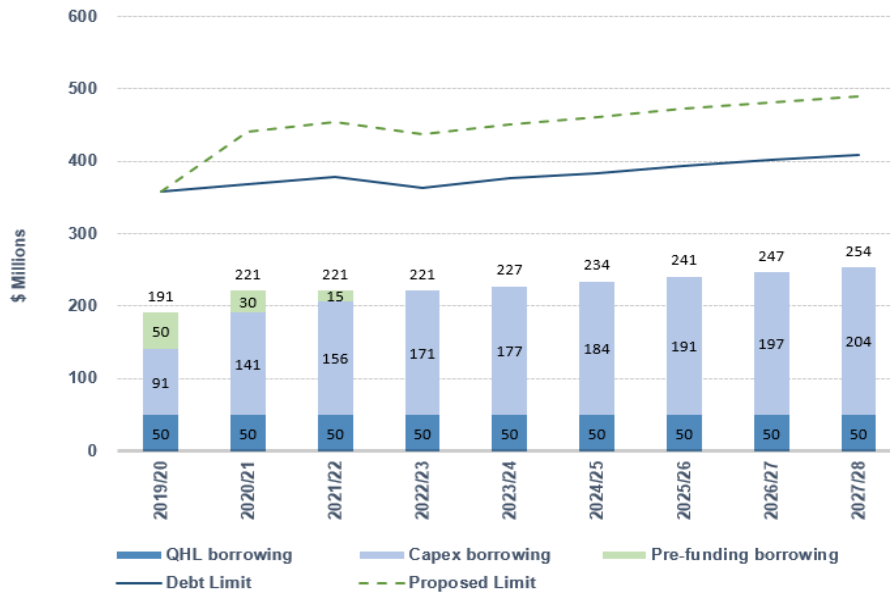
(1) *Delegates to the Chief Executive authority by:*

- I. Agree the terms and conditions on which the Regional Council participates in the LGFA scheme, including which arrangements are entered into;*
- II. Determine how the Regional Council exercises its rights under the arrangements entered into in connection with the LGFA Scheme, including, without limitation, the Council's rights as a shareholder in the LGFA and*
- III. Execute such documents and deeds and take such other steps as the Chief Executive considers necessary or desirable to execute, or take in connection with the Regional Council's participation in the LGFA as a Principal Shareholding Local Authority.*

6.5.6 Forecast borrowing and debt headroom scenarios

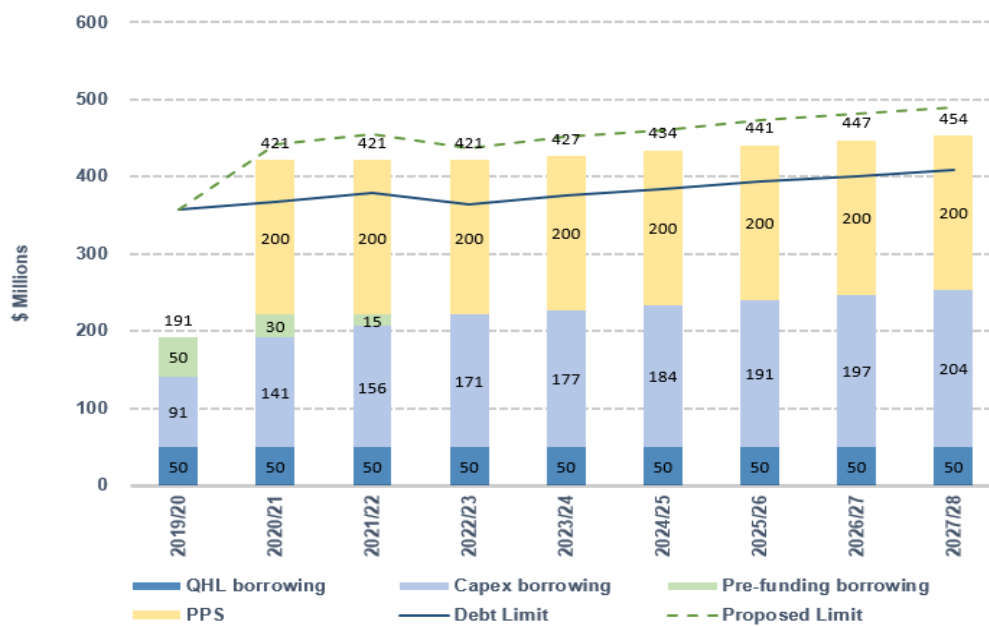
Graph 1 below shows Council’s forecast borrowing with the current 250% debt limit and the proposed 300% debt limit.

Graph 1: Forecast Borrowing and Debt Limit



Graph 2 shows a hypothetical scenario should Council borrow funds for PPS repayment, assuming a \$200 million valuation.

Graph 2: Forecast Borrowing and Debt Limit - Hypothetical scenario



6.6 Changes to Local Government Funding Agency - lending to CCOs Directly

Staff note the LGFA have proposed changes to the foundation documents. It has built a successful track record of continuous improvement and continues to evolve to meet council needs e.g. short dated lending and bespoke lending. The LGFA have made changes to allow CCO direct borrowing.

7 Next Steps

Decisions from this meeting will be used to prepare the final Annual Plan 2020/21, after which time no further changes will be possible prior to adoption at the 25 June 2020 Council meeting.

Council approval to adopt an Annual Plan 2020/21 and to set rates will be sought on 25 June 2020.

8 Implications for Māori

Our region has New Zealand's largest number of iwi entities and the second largest Māori population. To date, 19 Treaty of Waitangi settlements have been negotiated, 3 of which have established co-governance entities that have a statutory responsibility for freshwater bodies.

Over the past 10 years settlements, and Māori economic development have contributed to the region's prosperity. Changes to national policy, the Resource Management Act 1991 and the distribution of government economic recovery funds as a result of COVID 19 have further emphasised the importance of supporting partnerships with Māori across a range of activities.

As partners to the Treaty of Waitangi, Māori have particular constitutional rights and interests which are expressed not only in law, but also in the way they engage at a national and regional levels through their culture, language and mātauranga Māori.

Some of the papers presented in this annual plan denote Council's contribution, through its statutory obligations, and its objective to build sustainable relationships with Māori, to enable Māori initiatives to flourish.

Māori organisations will continue to seek the support of Council. It is important then, to ensure that Māori participation in Council decision-making processes will be central to our work in the future.

9 Financial Implications

A summary of the Council's updated Annual Plan 2020/21 Draft Budget and the financial implications included in the deliberations reports and in this report are included in appendices.

10 Significance and Engagement Policy

Through the development of the Annual Plan 2020/21, Council has followed its Significance and Engagement Policy and the Annual Plan requirements set out under the Local Government Act 2002. The decisions taken to date were assessed as not

being significant or material and it was not required to complete a full Special Consultative Procedure.

Staff have assessed the significance and materiality of changes that have been made since the Information Document was released and the recommendations of this Council meeting. The requirement is to assess the level of change for both individual items and for the total aggregate impact. The majority of changes made since the Information Document was released in April 2020 are related to timing of projects and operational improvements, particularly taking into account the impacts of COVID-19. Of the changes recommended at this meeting, none rate as highly significant and there is no requirement to undertake a full special consultative procedure.

One proposal, the Rangitāiki Floodway Stage 6 Project is rated as being of medium significance. The public consultation that has been undertaken on the Rangitāiki Floodway Stage 6 Project meets the consultation requirements to make this decision.

It is considered that the decision-making requirements of Part 6 of the Local Government Act 2002 have been met in relation to all of the recommended changes to the Annual Plan 2020/21.

11 Community Outcomes

This item contributes to all Community Outcomes in the Council's Long Term Plan 2018-2028.

Debbie Hyland
Finance & Transport Operations Manager

for General Manager, Corporate

29 May 2020

APPENDIX 1

BOPRC Annual Plan 2020-21 Draft Budget Deliberations

Bay of Plenty Regional Council

Updated Annual Plan 2020/21 Draft Budget Deliberations

LTP Year3 OPERATING BUDGET		ID	DAP
2020/21		2020/21	2020/21
\$000		\$000	\$000
Operating Revenue			
29,202	Targeted rates	30,840	30,609
33,200	Dividends	33,200	33,200
7,026	External interest income	5,671	5,781
8,062	Internal interest income	5,917	5,917
17,607	Operating grants and subsidies	21,294	17,407
2,140	Other revenue	3,044	3,041
12,352	Fees and charges	11,114	11,114
28,934	General rates	28,309	28,359
138,523	Total Operating Revenue	139,389	135,428
Operating Expenditure			
7,271	Administration expenses	7,198	6,152
9,067	Grants and subsidies	8,498	8,498
19,063	Other expenses	26,064	18,547
40,826	Employee expenses	43,264	42,749
5,943	Consultancy fees	6,485	6,410
39,368	Contract work	44,710	44,674
14,434	Finance costs	9,502	9,175
8,799	Depreciation and asset disposal	9,326	8,815
144,753	Total Operating Expenditure	155,028	145,000
6,230	Total Operating Deficit	15,639	9,572

LTP Year3 CAPITAL BUDGET		ID	DAP
2020/21		2020/21	2020/21
\$000		\$000	\$000
Capital Expenditure by Activity			
3,493	Rotorua Lakes	7,501	7,502
904	Kaituna	904	904
19,985	Rivers and Drainage Schemes	18,898	19,860
111	Maritime Operations	111	111
0	Passenger Transport	0	869
1,050	Regional Parks	1,050	1,050
11	Emergency Management	11	11
321	Geospatial	321	321
482	Data Services	421	421
360	Science	359	359
12	Communications	12	12
1,836	Corporate Property	8,194	8,194
2,146	Information and Communication Technology	2,145	1,737
30,709	Total Capital Expenditure	39,926	41,350
Capital Funding			
1,400	Capital grants received	3,404	3,404
5,701	Capital insurance recoveries	4,347	3,740
23,608	Increase in debt	32,174	34,206
30,709	Total Capital Funding	39,926	41,350

APPENDIX 2

BOPRC Annual Plan 2020-21 Draft Financial Implications Deliberations Recommendations

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Operating Expenditure										
Economic Recovery										
Regional Recovery Project	250	-	-	-	-	-	-	-	-	-
Sustainable Procurement	50	-	-	-	-	-	-	-	-	-
Flood Protection and Control										
Rangitāiki Floodway										
Depreciation	279	372	372	372	372	372	372	372	372	372
Interest cost of additional capital expenditure	186	303	312	300	287	274	260	246	231	216
Loan Repayment	220	376	412	424	437	451	464	478	493	508
Kaituna Mole	162	310	346	346	346	347	347	346	346	346
Rock Supply	173	290	323	330	338	346	355	363	372	382
Motiti Island										
Motiti Island monitoring	41	-	-	-	-	-	-	-	-	-
Civil Defence and Emergency Management										
Emergency Management COVID-19 impacts	400	-	-	-	-	-	-	-	-	-
Regional Development										
Western Bay urban growth / transport planning	250	-	-	-	-	-	-	-	-	-
Community Views										
Toi Kai Rawa	250	-	-	-	-	-	-	-	-	-
Budget Paper										
Minor Rivers and Drainage	(312)	-	-	-	-	-	-	-	-	-
Total Operating Expenditure increase	1,950	1,650	1,765	1,772	1,780	1,790	1,798	1,806	1,814	1,824

Capital Expenditure										
Kaituna Mole	1,800	564	-	-	-	-	-	-	-	-
Rangitāiki Floodway Stage 6 and Spillway	8,355	2,800	-	-	-	-	-	-	-	-
Total Capital Expenditure increases	10,155	3,364	-	-	-	-	-	-	-	-

Note: this is showing Stage 6 rating impact from Year 1

Funding Impact	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Rangitāiki Floodway	548	840	877	877	877	877	877	877	877	877
Kaituna Mole	130	248	277	277	277	278	278	277	277	277
Rock Supply	138	232	258	264	271	277	284	291	298	306
Minor Rivers	(387)	-	-	-	-	-	-	-	-	-
Targeted Rates	430	1,320	1,412	1,418	1,424	1,432	1,438	1,445	1,451	1,460
Economic Recovery - 1 Regional Recovery	250	-	-	-	-	-	-	-	-	-
Economic Recovery - 3 Sustainable Procurement	50	-	-	-	-	-	-	-	-	-
Flood Protection and Control - Rangitāiki Floodway	137	210	219	219	219	219	219	219	219	219
Flood Protection and Control - Kaituna	32	62	69	69	69	69	69	69	69	69
Flood Protection and Control - Rock Supply	35	58	65	66	68	69	71	73	74	76
Minor Rivers	(6)	-	-	-	-	-	-	-	-	-
Motiti Island monitoring	41	-	-	-	-	-	-	-	-	-
Western Bay urban growth / transport planning	250	-	-	-	-	-	-	-	-	-
Community Views - Toi Kai Rawa	250	-	-	-	-	-	-	-	-	-
General Rates	1,039	330	353	354	356	358	360	361	363	365
Total Rates	1,468	1,650	1,765	1,772	1,780	1,789	1,798	1,806	1,814	1,824

Indicative % movement										
Targeted Rates	1.5%	4.5%	4.8%	4.8%	4.8%	4.9%	4.9%	4.9%	4.9%	4.9%
General Rates	3.7%	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%

Reserves Movement										
Civil Defence and Emergency Management	400	-	-	-	-	-	-	-	-	-
Minor Rivers and Drainage	81	-	-	-	-	-	-	-	-	-
Total Reserves Movement	481	-	-	-	-	-	-	-	-	-

APPENDIX 3

Draft Toi Moana Trust Statement Of Intent 2020-21

Statement of Intent

Toi Moana Trust

For the year to 30 June 2021

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Introduction

The Local Government Act 2002 section 64(1) requires all Council-Controlled Organisations to annually prepare a Statement of Intent. The content of a Statement of Intent must adhere to the Local Government Act 2002 schedule 8.

Toi Moana Trust (the Trust) is a Council Controlled Organisation (CCO), itself being a subsidiary of the Bay of Plenty Regional Council (Council). This Statement of Intent incorporates the nature, scope, activities, and performance targets of Toi Moana Trust.

Objectives of the Trust

The Toi Moana Trust was established with the primary objective of providing optimised long-term investment returns without the restraint of liquidity requirements to Council. Its secondary objective is to protect the capital value of its investment over the longer term.

Governance

Quayside Holdings Limited has been appointed to be manager ('the Manager') of the Trust. The role of the Manager commenced on 1 July 2019. Quayside Holdings Limited is the parent of Quayside Securities Limited. Toi Moana Trust is a Portfolio Investment Entity (PIE) under the Quayside Investment Trusts, Trust Deed. Quayside Securities Limited is a corporate trustee of the assets of Quayside Investment Trusts.

Council is responsible for annually assessing the performance of the investment portfolios to ensure performance is in line with the Council's required investment returns and within prescribed risk criteria.

Council's Audit and Risk Committee (or equivalent) is responsible for regularly reviewing the Investment Manager's reports and ensuring that all parties overseeing, advising and managing the Council's investments disclose any potential conflicts of interest.

The Manager is responsible for managing the investments in accordance with the guidelines and objectives in the Trust's SIPO.

All parties must have requisite skills and must apply their skills, knowledge and experience in the best interests of the Trust and, be committed to high quality governance, and assist the Toi Moana Trust to meet its objectives and the requirements of this Statement of Intent.

The Trust can, as required, and the manager utilise third party brokers for transactions and a third party custodial for asset custody.

Committees and Policies

Toi Moana Trust comes under the delegated authority policy of the Quayside Group.

Ratio of Shareholder Funds to Total Assets

Toi Moana Trust

Assets	\$45,000,000
Liabilities	(\$0)

The figures above are all reflective of 1 July 2019.

Accounting Policies

The financial statements are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS), the Companies Act 1993, the Local Government Act 2002 and is a Tier 2 reporting entity under the Financial Markets Conduct Act 2013. A full set of accounting policies are available on request.

Performance Targets

Performance targets are effective for the year represented by this Statement of Intent. Target measures will therefore be assessed in full on or within 90 days after 30 June 2020. The Group

will keep Council informed of progress against performance targets on a no surprises basis during the year.

Investment portfolio

	Objective	Measure
1.	Generate commercial returns across the Investment Portfolio.	Annual net cash flow return of 5%
2.	Capital preservation	Long term capital preservation over an initial period of seven years
3.	Investments must be in accordance with its Principles of Responsible Investment.	<p>Investments must be screened from an ethical perspective and meet the following criteria. We must avoid investing in companies whose principal business activity is:</p> <ul style="list-style-type: none"> • The manufacture and sale of armaments • The manufacture and sale of tobacco • The promotion of gambling. •

Governance

	Objective	Measure
1.	Keep Council informed on a no surprises basis, providing quality and timely information.	<p>Quarterly reporting on investment fund performance.</p> <p>Timely advice and support as required.</p> <p>Matters of urgency are reported to Council at the earliest opportunity.</p>
2.	Meet Shareholders distribution expectations as outlined in SOI or as otherwise agreed.	Distributions paid to agreed values.

Distribution to Unit Holders

Distributions to Council of 5%

Distributions to Council

Financial year	2020	2021	2022
Distribution	\$2,250,000	\$2,250,000	\$2,250,000

The timing and amounts of distributions are to be mutually agreed.

Reporting to Shareholders

Toi Moana Trust provides its unit holders with Interim and Annual Financials reports each year.

No Surprises

Toi Moana Trust operates on a “no surprises” basis with its unit holders Council. The Manager will look to advise unit holders early of any material departure from the Statement of Intent at the soonest practical opportunity.

Other Matters

There are no matters other than those set out above.

APPENDIX 4

Draft Toi Moana Trust Statement of Investment Policy and Objectives 2020-21

Statement of Investment Policy and Objectives

Toi Moana Trust

For the year to 30 June 2021

Introduction

Purpose

The purpose of this Statement of Investment Policy and Objectives ('SIPO') is to describe Bay of Plenty Regional Council's (the Council) investment policy and investment objectives for its Toi Moana fund. It provides the policy framework for Council to effectively supervise, monitor and evaluate the management of the fund.

The Toi Moana fund was formed during the development of the Long Term Plan 2018-2028. It was recognised that the funds could be used for long term investment purposes to optimise returns to Council over the long run.

Effective date

This SIPO takes effect from 1 July 2020.

Review dates

The next review date for this SIPO is by 30 June 2021, or sooner if market conditions warrant it.

The review is to be endorsed by the Audit and Risk Committee (or equivalent) and then approved by the Council.

Scope

This SIPO relates to Council's Toi Moana fund.

Funds may be held in the following forms:

- 'Income' assets; incorporating cash, term deposits, long term, liquid fixed interest investments and commercial paper
- 'Growth' assets, incorporating equity investments, directly and via managed funds, and other approved growth assets

The total fund as at 1 July 2020 is \$45 million. Council expects the capital base to be maintained at \$45 million (the minimum targeted balance of the Toi Moana reserve). The agreed investment term is seven years.

In the Long Term Plan 2018-2028 Council has budgeted a net annual investment income from these funds of \$2.25 million from years one to five.

Investment management structure

The fund is to be managed by the Investment Manager selected by Council who can best achieve the objectives of this SIPO. As at 30 June 2020 the Investment Manager is Quayside Holdings Limited.

The Investment Manager is responsible for administering the Fund and selecting and managing its investments.

Objectives

Investment objectives

Councils overarching strategic goals for its Toi Moana Fund are:

- Council will maintain a long-term perspective to ensure assets are protected for future generations and over the long run will consider the impact of inflation
- Council will ensure that investment returns are optimised within the risk management parameters specified in its Treasury Policy and SIPO

Investment philosophy

As a responsible public authority, Council's philosophy is that all investments must be prudent and the associated risks and returns balanced against the key aim of capital preservation. Council's Treasury framework is supportive of its inter-generational responsibilities to ratepayers. The primary focus is capital protection, followed by an appropriate return and acceptable liquidity.

The Investment Manager of the Toi Moana fund is empowered to develop investment strategies that best fit the objectives and risk tolerance of the fund. In developing and amending investment strategies the Investment Manager must consider the investment objectives of the Toi Moana Fund and apply a responsible investment framework filter when considering investments as outlined below.

Investment performance objectives

The objectives of this fund are capital protection of the initial investment and a targeted cash yield is 5.0% per annum.

All returns are assessed in NZD.

Investment time horizon

The investment guidelines are based on an investment time frame of seven years. Interim fluctuations should be viewed with appropriate perspective.

Investment risk

The Investor, Council bears the investment risk, managing this risk is a key objective of the Investment Manager.

Socially responsible investments

Responsible investment, including environmental, social and governance considerations (ESG), is taken into account in the investment policies and procedures.

Responsible investing does not require ruling out opportunities but it does require decision-makers to incorporate ESG information into investment and borrowing decisions to identify and consider activities known to be socially, culturally and environmentally detrimental.

ESG factors are numerous and continually changing. Environmental factors include climate change, greenhouse gas emissions, resource depletion, waste and pollution, deforestation. Social factors include working conditions, local communities, conflict, health and safety and employee relations. Governance factors include executive pay, bribery and corruption, board diversity and structure, and tax strategy. The Investment Manager will incorporate ESG

information in its investment decision-making process to ensure that all relevant factors are accounted for when assessing risk and return.

Our manager must screen potential investments from an ethical perspective to ensure they meet the following criteria as an important part of our due diligence process. We will look to avoid investing in companies whose principal business activity is:

- the manufacture and sale of armaments
- the manufacture and sale of tobacco
- the promotion of gambling

Where an investment is made into a managed fund, exchange traded fund, or collective investment vehicle the exclusion test shall be applied against the fund and any constituents representing greater than 5% of that fund.

Policy setting and management

Council may approve/amend the policy parameters set in relation to investment activities. These changes will be minuted and incorporated into the SIPO and the dates of the changes noted. Changes will be made in consultation with the Investment Manager(s).

Allocation of responsibilities

Council and staff responsibilities are outlined in the Treasury policy and the Treasury Delegations manual. The Council may change Investment Managers from time to time as it sees fit at its sole discretion but notes the seven year investment horizon.

Investment managers

The investment manager will:

- Manage investments in accordance with the guidelines and objectives as outlined in the SIPO
- Ensure investment assets are appropriately diversified and conform with the council's time horizon and agreed risk/return profile
- Specify and advise on Strategic Asset Allocation and Tactical Asset Class Allocation
- Outline expected returns and risk, or volatility, within the selected strategies
- Define the procedure to be used for reporting, reviewing and possible modification of strategies from time to time

Risk tolerance

Council recognises that some risk must be assumed in order to achieve the long term investment objectives. Risk tolerance is affected by three factors:

- Capacity to accept risk,
- Willingness to accept risk, and
- Required rate of return

Capacity to accept risk

Council's capacity to accept risk is a function of its investment time horizon, prospective future contributions, current financial conditions, fund requirements and reserve facilities.

Time horizon: This SIPO has been prepared on the basis that Council is expected to exist in perpetuity. The investment time horizon of Council is therefore long term. This increases capacity to accept risk.

Financial capacity: Councils current financial condition and level of funding requirements imply reasonable capacity to tolerate short to medium term volatility in the value of its investment portfolios. This increases capacity to accept risk.

Based on the combination of time horizon and financial circumstances, Council's implied capacity to accept risk is assessed as Medium to High although its willingness to accept risk is lower.

Willingness to accept risk: Council is a risk averse entity. Where possible Council seeks to minimise volatility or risk. Notwithstanding this risk aversion, the Council acknowledge that investing solely in capital stable investments exposes the portfolio to the risk of inflation. This impacts the real value of investments. Council is willing to accept some risk in order to increase expected return in line with maintaining intergenerational equity.

Required rate of return

Careful consideration of cash flow requirements is essential to determine the required rate of return. To achieve the desired level of contributions to cash flow and liquidity needs, an assumed portfolio size of \$45 million; a return of 5.0% should be sufficient to meet Council's financial strategy.

Risk summary and selection of asset allocation

The table below summarises the Council's level of risk tolerance as measured by the three risk factors:

Risk Measure	Level of risk
Capacity to accept risk	Medium to high
Willingness to accept risk	Low
Required rate of return	High

Council's Toi Moana reserve liquidity and risk requirements are detailed below:

Reserve	Funds used for	Level of acceptable risk	Liquidity needs
Toi Moana reserve	Investment returns	Low	Low liquidity

Over the long term, the average rate of investment return is related to the level of risk and term of investments within the portfolio. The Toi Moana reserve requires low liquidity and therefore Council should receive a return premium because of the council's willingness to commit to investments for a longer fixed period than the other reserves.

Based on Councils required return, capacity and willingness to accept risk, it is recommended that a conservative portfolio is adopted which is suitable for a Medium level of risk.

Investment policy and implementation

General

In general terms when making decisions on investments the managers will have regard to the overall circumstances of the Portfolio and will comply with all applicable legislative requirements.

The investments will be managed with a view to ensuring sufficient liquidity to meet expected return requirements.

Investment risk will be limited by diversification both within and between asset classes as determined appropriate by the investment manager.

Asset class guidelines

The Toi Moana Fund may consist of a mixture of growth and income assets.

The Investment Manager is empowered to make investments in the following asset classes and assets:

- Cash – term deposits, cash on call, commercial paper
- NZ fixed interest – NZ Government, NZ Registered Banks, local authority and NZ State Owned Enterprise bonds, corporate bonds, fixed interest funds
- International fixed interest – via managed funds that are 100% hedged back into NZ Dollars
- Equities, either via managed funds or directly

Asset allocation

The Manager of the fund is empowered to develop asset allocations that best fit the objectives and risk tolerances of the fund.

Investment performance monitoring and reporting

The goals of performance monitoring are to:

- Assess the extent to which the investment objectives are being achieved
- Compare the performance against the performance of relevant market indices
- Allow the Audit and Risk Committee (or equivalent) to continually assess the ability of the Council to meet the Treasury objectives

Quarterly reporting on investment fund performance, may include but is not limited to the following:

- Current investments
- Cash flows received and paid during the period
- Performance of the portfolio under the investment mandate and agreed objectives

Materiality

Whether or not a breach of this SIPO is material is determined at the discretion of the Manager. In considering whether or not a breach is material, the Manager will give consideration to:

- The nature of the breach;
- The cause of the breach, including whether or not the breach is the result of sharp short-term market movements; and
- The size of the breach.

A breach of a range resulting from market movements, which is corrected within 5 business days, will not ordinarily be deemed material for limit break reporting purposes.

Monitoring Process

The Finance Team will monitor the investments for compliance on a quarterly basis, including reporting from the investment managers.

Resolution and Reporting

Where the Chief Financial Officer becomes aware of a breach, the relevant investment or underlying fund manager will be instructed to remedy the breach immediately.

Where the Chief Financial Officer determines that a material breach has occurred and that breach is not resolved within 5 business days, the Manager will immediately report the limit break to Council, otherwise the Chief Financial Officer will report the limit break to Council each quarter.

Taxation

The Fund is to reflect Council's status as a zero rated tax payer.

Withdrawals and reinvestments

Council relies on the investment income generated from the funds for cash flow requirements and the intent is to have investment income paid to the Council on the agreed dates, mutually agreed with the Investment Manager. This means that there are times when the Investment Manager will be able to reinvest investment income received, for example interest and dividends received and the term and nature of these reinvestments is at the discretion of the Investment Manager, subject to the Investment Income Payment dates as agreed.

Council is committed to maintaining the capital base of the Toi Moana fund and no funds are forecast to be withdrawn from this reserve within the agreed investment time frame.

Liaison requirements

The Investment Manager is expected to be available for attendance at Council meetings at dates and times mutually agreed. It is expected that they will attend on a quarterly basis.

The Investment Manager must also be available for liaison with Council by telephone at any reasonable time.

Review

The Council will review this SIPO at least annually to determine whether the stated investment objectives are still relevant and it is feasible that they will be achieved. Short term changes in the financial markets should not require adjustments to the SIPO.

APPENDIX 5

QHL- Special Resolution to amend constitution March 2020

QUAYSIDE HOLDINGS LIMITED
(the *Company*)

Written special resolution of the sole ordinary shareholder of the Company pursuant to sections 32 and 122 of the Companies Act 1993 (the Act)

Date: 2020

Introduction

It is proposed that the Company's constitution (*Constitution*) be altered in the manner described below.

Resolution

The shareholder resolves as special resolution in the form of written resolution under section 122(1) of the Act that the Constitution be altered by:

1 inserting the following definition into clause 1.1:

"*Face Value* means the nominal value of each perpetual preference share being \$1.00."

2 replacing clause 6.3 with the following:

"6.3 Meeting of holders of perpetual preference shares

(a) A meeting of holders of perpetual preference shares entitled to vote on an issue:

(i) may be called at any time by the board or a person who is authorised by the constitution to call the meeting;

(ii) must be called by the board on the written request of the Administrative Agent given in accordance with the Options Deed.

(b) A meeting of holders of perpetual preference shares must be called by the board on the written request of holders of perpetual preference shares holding not less than 5% of the total Face Value of all perpetual preference shares on issue."

Signed for and on behalf of the sole ordinary shareholder of the Company, Bay of Plenty Regional Council, by:

Name:

Authority:

