

NOTICE IS GIVEN

that the next meeting of the **Regional Council** will be held in **Mauao Rooms, Bay of Plenty Regional Council Building, 87 First Avenue, Tauranga** on:

Friday, 1 June 2018 commencing at 9.00 am.

Extraordinary Meeting of Council

Supplementary Agenda Report:

Long Term Plan 2018-2028 - Financial overview and implications following Council deliberations



Report To: Regional Council

Meeting Date: 01 June 2018

Report From: Mat Taylor, General Manager, Corporate Performance

Long Term Plan 2018-2028 - Financial overview and implications following Council deliberations

Executive Summary

At its meeting on 15 February 2018 Council adopted the draft Consultation Document 'Today, Tomorrow, Together' and supporting documents including the draft Financial Strategy and Revenue and Financing Policy for the Long Term Plan 2018-2028 (LTP 2018-2028) for public consultation. Following the end of the consultation period, Council considered the 238 submissions received, and heard approximately 70 submitters speak to their submissions at hearings across the region on 16-20 April.

On 22 May 2018, Council met to deliberate on the LTP 2018-2028 and made decisions on all of the matters put to Council through deliberations papers. During the meeting, an update was provided by the Chief Executive of Quayside Holdings Limited (Quayside) on the dividend distributions. On 25 May 2018 Quayside advised a full and final distribution for Council's LTP 2018-2028 which would increase the distribution forecasts by approximately \$2 million per year for the next ten years.

Council has reconvened for an Extraordinary Council meeting to consider recommendations from staff and receive the updated budget forecasts for LTP 2018-2028 prior to adoption on 28 June 2018. This paper discusses the Council's overall financial position for the LTP 2018-2028 based on the most up to date information. This includes a recommended reduction in the general rate increase proposed through consultation from 12% to 9.1% in 2018/19 with increases in targeted rates depending on the area and the services provided. This report also includes consideration of the Enviroschools Programme.

The LTP 2018-2028 including the Financial Strategy and Revenue and Financing Policy will be updated from feedback received at the meeting, and presented for adoption on 28 June 2018.

Recommendations

That the Regional Council:

- 1 Receives the report, Long Term Plan 2018-2028 - Financial overview and implications following Council deliberations;**

- 2 Notes that the Enviroschools and related programmes will continue to be supported as currently budgeted, noting additional funding has been requested through the Long Term Plan processes for other territorial authorities.**
- 3 Notes the budget forecasts for the Chairman’s discretionary fund and external sponsorship funds are included in the draft Long Term Plan 2018-2028 budget estimates.**
- 4 Agrees that the draft Long Term Plan 2018-2028 will be prepared for adoption on an assumption of a general rate increase in 2018/19 of 9.1% and that this increase is almost three percent less than proposed through consultation.**

1 Introduction

At its meeting on 15 February 2018 Council adopted the draft Consultation Document ‘Today, Tomorrow, Together’ and supporting documents including the draft Financial Strategy and Revenue and Financing Policy for the Long Term Plan 2018-2028 (LTP 2018-2028) for public consultation. Following the end of the consultation period, Council considered the 238 submissions received, and heard approximately 70 submitters speak to their submissions at hearings across the region on 16-20 April.

On 22 May 2018, Council met to deliberate on the LTP 2018-2028 and made decisions on all of the matters put to Council through deliberations papers. During the meeting, an update was provided by the Chief Executive of Quayside Holdings Limited (Quayside). Quayside is a Council Controlled Organisation (CCO), 100% owned by the Council and the majority shareholder of the Port of Tauranga Limited (POTL).

Quayside advised that investments had outperformed forecasts and advised that subject to consideration and direction by the QHL Board, a full and final distribution would be proposed for LTP 2018-2028 which would increase the distribution forecasts by approximately \$2 million per year for the next ten years.

To enable this information to be confirmed, Council agreed to reconvene for an Extraordinary Council meeting to consider recommendations from staff and receive the updated budget forecasts for LTP 2018-2028 prior to adoption later in June 2018.

At their Board meeting on 25 May 2018, Quayside considered its financial position and approved the final distributions proposed for Council’s LTP 2018-2028 as set out in this report.

This paper discusses the Council’s overall financial position for the LTP 2018-2028 based on the most up to date information and this includes consideration of the Enviroschools Programme.

2 Draft budget overview

2.1 LTP 2018-2028 Draft Budget (“Our Budget Approach”) summary

For deliberations, Council’s LTP 2018-2028 budget approach was approved and this is summarised as follows:

- Council will deliver many of its existing services at the same or similar level to what is currently provided with increases in some areas including passenger

transport, data services, sciences and emergency management, as well as consents and compliance, and climate change.

- Spending \$1.4 billion of operating expenditure over the next ten years. Operating expenditure for Year One of draft LTP 2018-2028 has increased by \$12 million (compared to the revised budget for Annual Plan 2017/18) to \$137 million. This includes increased investment in the areas noted above and for the first time, borrowing costs associated with Council's capital works programme. Council will maintain a commitment to community project funding of \$500,000 per annum (Environmental Enhancement Fund \$300,000, and Community Initiatives Fund \$200,000 per annum). Allocations from the Community Initiatives Fund to community projects were made for the first three years of draft LTP 2018-2028 during deliberations.
- Spending \$192 million of capital expenditure over the next ten years, with significant increases in the early years as a result of the necessary but costly repairs of our flood protection and control schemes following the April 2017 flood events in the eastern Bay.
- Overall funding approach as proposed through consultation to ensure Council delivers a sustainable budget for the next ten years. This put a stronger focus on the money collected from fees and charges and from targeted rates, where it is easier to identify who is benefiting from the services provided by Council, making it clearer to everyone where their money is spent. Council will continue to use the significant dividend from Quayside each year to reduce the amount Council needs to collect through general rates.
- Full allocation from the Infrastructure Fund (PPS monies) \$42 million, and additional allocations from the Regional Fund for new third party infrastructure funding operating grants contributions of \$200,000 in Year One and \$750,000 in Year Four of draft LTP 2018-2028. The updated budget estimates reflect a transfer to the Regional Fund from the Infrastructure Fund reserve, of \$20 million due to revised forecasts for the Regional Infrastructure Fund grants which are lower than Council proposed for its consultation budget.
- Borrowing in excess of \$165 million from the Local Government Funding Agency to fund capital expenditure meaning the cost could be spread out over time so that future generations pay for the benefit they will receive.
- Council will use its debt headroom to on-lend up to \$50 million of borrowing to Quayside to help optimise the interest costs incurred for the benefit of the Council Group. Council will also utilise Quayside to invest its Toi Moana Fund investment reserve on behalf of Council.
- A reduction in the general rate increase proposed through consultation from 12% to 9.1% in 2018/19 with increases in targeted rates depending on the area and the services provided.
- In addition an unbalanced budget was proposed by Council in the early years but balanced over the ten years of LTP 2018-2028; primarily due to Council's commitment to contribute to third party infrastructure projects, and the use of its targeted rates reserves to fund specific operating expenditures to help reduce targeted rates increases in 2018/19. This remains unchanged as a result of the budget changes and recommendations discussed in this report.

2.2 Quayside dividend

At their Board meeting on 25 May 2018, Quayside approved an update to the distributions proposed for the Council's LTP 2018-2028.

The distributions quoted below are based on Quayside distributing 80% of all cash surpluses over the ten year period. The numbers include any group benefit derived from on-lending of funds through Council from the Local Government Funding Agency.

The restated forecasts are below and these are now included in the updated budget estimates for draft LTP 2018-2028:

Table 1: LTP 2018-2028 forecast distributions Quayside Holdings Limited

QHL distribution	Annual Plan 2017/18	Year 1 LTP 2018/19	Year 2 LTP 2019/20	Year 3 LTP 2020/21	Years 4-10 LTP 2021/22 – 2027/28
	\$000	\$000	\$000	\$000	\$000
Total QHL distributions LTP deliberations		29,000	29,872	30,771	242,941
Net increase in revenue		2,200	2,228	2,329	18,959
Total QHL distributions LTP extraordinary meeting	25,500	31,200	32,100	33,100	261,900

2.3 LTP 2018-2028 Draft Budget updated following deliberations

As part of the review of the draft LTP 2018-2028 budget, and following deliberations, a number of amendments and changes were required to the budget forecasts. The changes to operating and capital expenditure have resulted from decisions from Council deliberations, new information which has arisen and internal reviews.

Table 2: LTP 2018-2028 forecast total operating expenditure summary of changes since deliberations

Operating expenditure	Revised Budget 2017/18	Year 1 LTP 2018/19	Year 2 LTP 2019/20	Year 3 LTP 2020/21	Years 4-10 LTP 2021/22 – 2027/28
	\$000	\$000	\$000	\$000	\$000
Total operating expenditure LTP deliberations		134,634	142,717	149,983	1,024,918
Net increase / (decrease) in expenditure		2,420	(8,068)	(5,229)	6,452
Total operating expenditure – LTP extraordinary meeting	125,567	137,054	134,649	144,754	1,031,370

Table 3: LTP 2018-2028 Forecast total capital expenditure summary of changes since deliberations

Capital expenditure	Revised Budget 2017/18 \$000	Year 1 LTP 2018/19 \$000	Year 2 LTP 2019/20 \$000	Year 3 LTP 2020/21 \$000	Years 4-10 LTP 2021/22 – 2027/28 \$000
Total capital expenditure LTP deliberations		52,689	49,634	30,658	53,525
Net increase / (decrease) in expenditure		5,207	2,770	50	(2,623)
Total <u>capital</u> expenditure LTP extraordinary meeting	48,272	57,896	52,404	30,708	50,902

2.4 Major items included in LTP 2018-2028 Budget changes.

The following list is the major items included in the summary above:

- Additional expenditure forecasts approved by Council through deliberations. These increases are funded from a variety of sources, including budgeted efficiency savings, fees and charges, and additional revenue from Quayside's final dividend distributions proposal.
- With the increase in net revenue, we are able to retain budget provision for both the Chairman's Discretionary Fund, and the Sponsorship Budget referred to at last week's deliberations meeting.
- A decrease in the general rates funding is proposed. Staff recommend a reduction of the general rate increase proposed through consultation from 12% (an average of \$32 per household) to 9.1% in 2018/19 (an average of \$26 per household) with increases in targeted rates depending on the area and the services provided.
- Additional dividend distributions.
- Changes to the treasury borrowing cost/investment returns due to changes in composition of reserves and capital works phasing. Also the updated internal loans repayment schedules for all planned capital expenditure projects.
- Inclusion of additional, and reclassification of capital funding from the Ministry for the Environment for the Kopeopeo Canal Remediation Project to fund 50% of the revised forecast capital expenditure in 2018/19.
- Use of targeted rates reserves to lower the targeted rates increases in Year One of draft LTP 2018-2028 for rivers and drainage, and passenger transport.

3 Other items

3.1 Enviroschools

Through the LTP 2018-2028 submissions process, a submission was received from the Toimata Foundation. The Toimata Foundation is the umbrella agency for the Enviroschools programme and is funded by the Ministry for the Environment. This submission point was not specifically discussed with Council at last week's deliberations meeting however this paper includes further details of the submission.

The key points of submission included:

- Enviroschools is a proven programme specifically designed to meet multiple Local Government outcomes
- Collective impact model for Enviroschools provides value for council partners
- There is a high degree of convergence between Enviroschools and BOPRC's Thriving Together - *mō te taiao, mo ngā tāngata* and Council Outcomes
- Specific key supports are needed for Enviroschools to be an effective programme in the region
 - 0.6-1.0 full time equivalent (FTE) Regional Coordinator role (currently approx. 0.1 FTE)
 - Unlike almost all other regions, Bay of Plenty is not running Enviroschools in partnership with the region's territorial authorities (Note: this is aside from Tauranga City Council, as well as with community groups as noted below).
 - Appropriate operational budget (approximately \$20,000)
 - Review of all Enviroschools currently registered with the programme
 - An additional 1.5 -2.0 FTE Enviroschools Facilitators
- A request for Council to clarify its level of commitment to Enviroschool

Staff Analysis

Council has supported Enviroschools for more than ten years with in kind contributions from Tauranga Region Kindergarten Association (now known as Inspired Kindergartens), along with a cross regional collaboration with Central Kids (this includes Toimata Foundation, Bay of Plenty Regional Council, Horizons and Waikato Regional Council) and Tauranga City Council.

Through the current Long Term Plan we are planning to continue support as currently funded for and work towards a collaborative increased support alongside Toimata Foundation and the Bay of Plenty Territorial Authorities (TA's).

The Bay of Plenty Regional Council has made requests to other TA's (\$10,000 per TA) for funding support for Enviroschools through their respective LTP processes. As a result additional resourcing requested may be met, at least in part, depending on the outcome of those decisions.

In addition to Enviroschools programmes in schools, the Toimata Foundation partners with Council to run events open to all schools in the rohe, including Waiora, Enviro Expo, Energise and Youth Jam. These are all supported by Toimata Foundation (\$5,000) funding along with Council funding of \$20,000.

Staff recommendation

Staff recommend maintaining the currently budget estimates included in the draft LTP 2018-2028 for Enviroschools, related programmes e.g. school/youth events such as Waiora, Enviro Expo, Energise, Youth Jam, and allocation of potential funding from other TA's (\$10k per TA) following decisions through their respective LTP processes.

The Toimata Foundation has indicated that they are open to further conversations with Council and working collaboratively to work towards an increased level of support for the programme within the Bay of Plenty and Council remains committed to this approach.

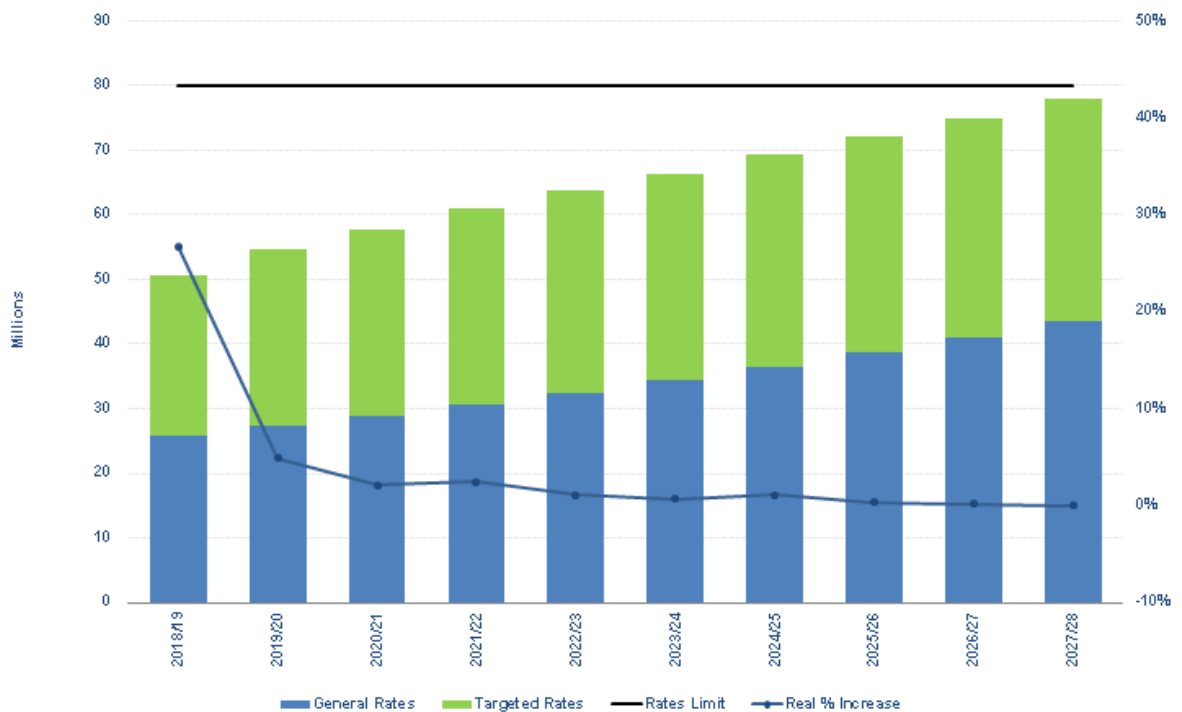
4 Summary of financial implications

The following tables provide a summary of the latest financial estimates for the draft LTP 2018-2028 budget.

The budget estimates have been based on assumptions which will be audited later this month, and which will need to be reviewed prior to the finalisation of the LTP 2018-2028 at the June 2018 meeting.

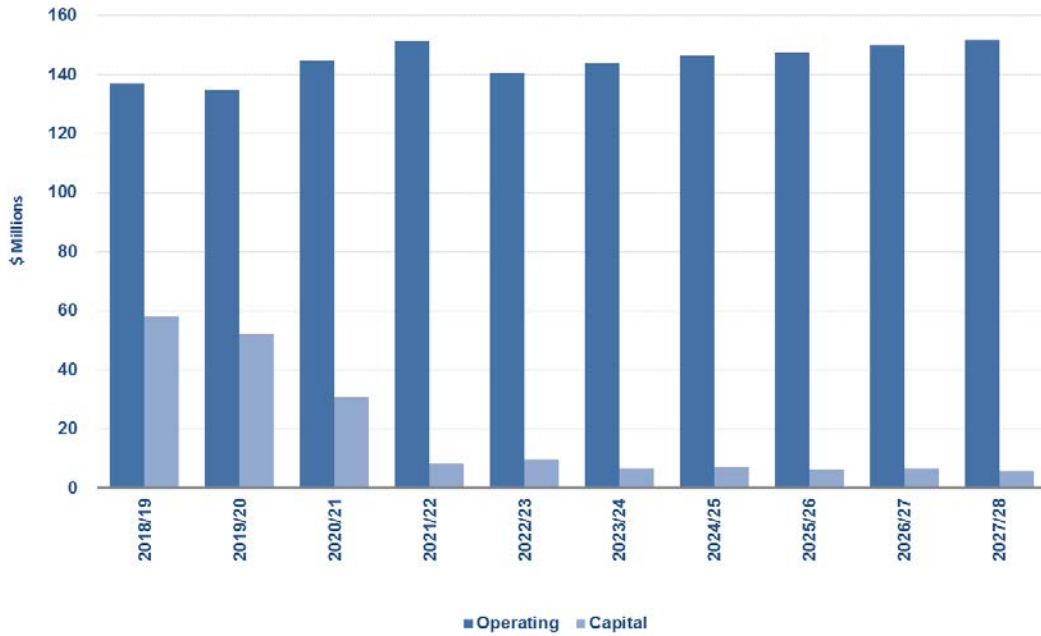
4.1 Forecast financials for draft LTP 2018-2028 on the basis that all recommendations in this report are approved

The following diagram shows **forecast total rates and rates increases**, on the basis that all recommendations in this report are approved:



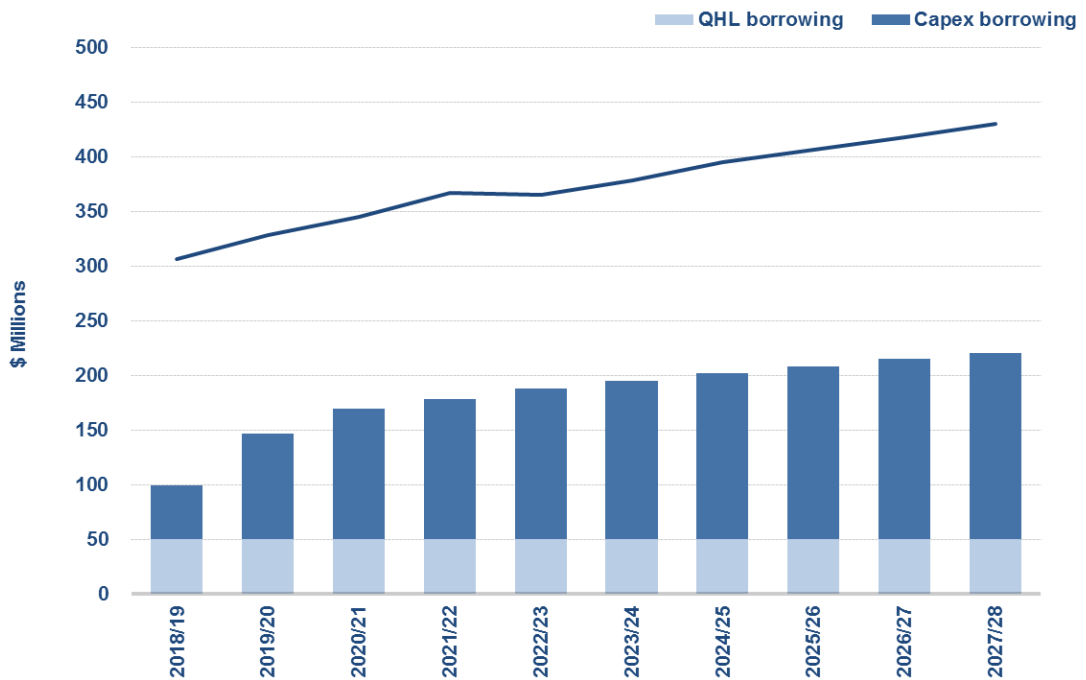
The following diagram shows **forecast total operating and capital expenditure**, on the basis that all recommendations in this report are approved:

Forecast Operating and Capital Expenditure



The following diagram shows **forecast total borrowings and debt limits**, on the basis that all recommendations in this report are approved:

Forecast Borrowing and Debt Limit



5 Next steps

The draft LTP 2018-2028 including the Financial Strategy and Revenue and Financing Policy will be updated following direction from Council at this extraordinary meeting, and presented for adoption on 28 June 2018.

6 Council's Accountability Framework

6.1 Community Outcomes

This paper directly contributes to the all Community Outcomes in the Council's LTP 2018-2028.

6.2 Long Term Plan Alignment

This work is planned under the Finance and Corporate Planning Activity in the LTP 2018-2028.

Debbie Hyland
Finance and Corporate Planning Manager

for General Manager, Corporate Performance

30 May 2018