

Lake Rotorua Incentives Committee

NOTICE IS GIVEN

that the next meeting of the **Lake Rotorua Incentives Committee** will be held in **Committee Room 1, Rotorua Lakes Council, Civic Administration Building, 1061 Haupapa Street, Rotorua** on:

Friday, 15 June 2018 commencing at 1.30 pm.

Mary-Anne Macleod
Chief Executive
7 June 2018



Lake Rotorua Incentives Committee

Terms of Reference

The objective of the Lake Rotorua Incentives Committee is to contribute to the improvement of Lake Rotorua water quality by achieving a 100 tonne reduction of nitrogen entering Lake Rotorua and ensuring this investment of Council is adequately protected in perpetuity.

It will achieve this by making sound financial decisions to secure permanent reductions in nitrogen discharges below the level of discharge established for properties and the catchment and by promoting and facilitating the up-take of profitable low nutrient land management and land use systems in the Lake Rotorua Groundwater Catchment.

The Committee members will be appointed by the Bay of Plenty Regional Council. While the Committee is made up primarily of independent appointees, the Committee will ensure its functions are integrated with Regional Council operations to deliver effectiveness and efficiency of operation, and ensure that its responsibilities as a Committee of Council are met.

Delegated Function

The Committee will act on behalf of the Bay of Plenty Regional Council to:

- Achieve a permanent 100 tonne reduction of nitrogen entering Lake Rotorua from the Lake Rotorua groundwater catchment at the least cost in a manner that gives consideration to the economic impact on the wider community but within the budget of \$40 million and within the parameters of:
 - The Lake Rotorua Incentives Scheme Policy 2014; and
 - Approved annual Incentives Scheme budgets;
 - A comprehensive and professional business strategy, adopted and reviewed as necessary by the Committee.
- Negotiate agreements to reduce nitrogen and secure no exacerbation in phosphorous loss to Lake Rotorua on a willing buyer/willing seller basis;
- Promote and facilitate the up-take of profitable low nutrient land use and/or management practices to achieve the Committee objectives;
- Enter in to joint ventures or partnerships to achieve Committee objectives;
- Collaborate, coordinate and communicate with other relevant agencies, in-particular the Rotorua Te Arawa Lakes Programme Partners and the Rotorua Economic Development Agency;
- Ensure ongoing coordination with Proposed Plan Change 10 to the Regional Water and Land Plan and compatibility and integration with the Rotorua Te Arawa Lakes Programme;
- Adopt business rules for the operation of the Lake Rotorua Incentives Scheme to give effect to this Terms of Reference and ensure integration with the functions of, and compliance with the responsibilities of, Bay of Plenty Regional Council;

Report as follows:

- Progress to funding partners and the Rotorua Te Arawa Lakes Strategy Group on achieving the Lake Rotorua Incentives Scheme Policy and Strategy on a six month and annual basis, including budgeting information and projections;
- An annual strategic review of the project and progress in accordance this Terms of Reference, and report this to the funding partners and the Rotorua Te Arawa Lakes Strategy Group;
- Information as required by the Bay of Plenty Regional Council for audit, independent review or quality assurance purposes;
- As directed by the Bay of Plenty Regional Council on any other matter.

Membership

- The Committee will have a minimum voting membership of five and a maximum of seven, including at least one Councillor representative; and
- A General Manager of the Regional Council will be appointed as an advisor to the Committee and will attend all Committee meetings.

Term of the Committee

For the period of the 2016-2019 Triennium, unless discharged earlier by the Regional Council.

Quorum

In accordance with Council standing order 10.4, the quorum at a meeting of the Committee is not fewer than three voting members if the total membership present is six or less and four voting members if the total membership present is more than six.

Meeting frequency

At least three times per annum, or as frequently as required to deliver appropriate governance.

Specific Responsibilities and Delegated Authority

The Lake Rotorua Incentives Committee is delegated the power of authority to:

- In accordance with delegations of Council, agree to enter into legal agreements on the Bay of Plenty Regional Council's behalf which secure nitrogen reductions in perpetuity;
- In accordance with the delegations of Council, authorise the payment of funds to secure nitrogen reductions below nitrogen discharge limits in line with the Lake Rotorua Incentives Policy 2014.

The Lake Rotorua Incentives Committee does not have the authority to purchase or acquire land.

The above delegations are subject to the following conditions:

- The Committee can commit funding to proposals where the financial commitment is within the budgeted amounts and within the multi-year appropriation agreed by the funding partners.
- The budgeted amounts are as specified within the Annual Work programme, Three-Year Work programme, Deed of Funding with the Crown and Long Term Plan of Council, as are current and approved at any point in time.
- Any proposal that exceeds the approved budget amounts or that requires multi-year appropriation requires the approval of the funding partners.

- Payments for permanent nitrogen reductions must not, over the life of the fund, overspend the Incentives Scheme total budget or under achieve the nitrogen target.
- Agreements must not establish an unsustainable, average price given the Lake Rotorua Incentives Scheme's objective and budget.
- The due diligence requirement as described in the Lake Rotorua Incentives Policy 2014 is satisfied.
- If an agreement takes the form of a Deed, ensure that it is executed by at least two elected members of the Bay of Plenty Regional Council who are not members of the Lake Rotorua Incentives Committee.

Note:

- The Lake Rotorua Incentives Committee reports to the Regional Council.
- The Chair of the Lake Rotorua Incentives Committee is appointed by the Regional Council.

Public Forum

1. A period of up to 15 minutes may be set aside near the beginning of the meeting to enable members of the public to make statements about any matter on the agenda of that meeting which is open to the public, but excluding any matter on which comment could prejudice any specified statutory process the council is required to follow.
2. The time allowed for each speaker will normally be up to 5 minutes but will be up to the discretion of the chair. A maximum of 3 public participants will be allowed per meeting.
3. No statements by public participants to the Council shall be allowed unless a written, electronic or oral application has been received by the Chief Executive (Governance Team) by 12.00 noon of the working day prior to the meeting and the Chair's approval has subsequently been obtained. The application shall include the following:
 - name of participant;
 - organisation represented (if any);
 - meeting at which they wish to participate; and matter on the agenda to be addressed.
4. Members of the meeting may put questions to any public participants, relevant to the matter being raised through the chair. Any questions must be asked and answered within the time period given to a public participant. The chair shall determine the number of questions.

Membership

Chairperson:	N Bruning
Appointees:	E Hughes (Independent), Dr T Kingi (Independent), Dr T Petch (Independent), G Rice (Independent), Councillor K Winters (Bay of Plenty Regional Council)
Committee Advisor:	Y Tatton

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

Agenda

- 1 Apologies**
- 2 Public Forum**
- 3 Acceptance of Late Items**
- 4 General Business**
- 5 Confidential Business to be transferred into the open**
- 6 Declarations of Conflicts of Interests**
- 7 Previous Minutes**
 - 7.1 Lake Rotorua Incentives Committee minutes - 08 February 2018** 13
- 8 Reports**
 - 8.1 Update from Rotorua Land Management Team** 17
 - 8.2 Update on Low Nitrogen Land Use Fund 2018** 21
 - 8.3 Communications Plan**

This item will be a verbal update accompanied by a PowerPoint presentation.
 - 8.4 Pricing and Negotiation Strategy** 25
 - APPENDIX 1 - Pricing and Negotiation Strategy May 2018 27
 - APPENDIX 2 - Pricing and Negotiation Strategy Assessment Matrix 35

8.5 2017-2018 Strategic Review - Lake Rotorua Incentives Scheme 39

9 Public Excluded Section 43

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	Ground(s) under Section 48(1) for the passing of this resolution
9.1 Public Excluded Lake Rotorua Incentives Committee minutes - 08 February 2018	Good reason for withholding exists under Section 48(1)(a)	Please refer to the relevant clause in the open meeting minutes.
9.2 Landowner Negotiations Update	Good reason for withholding exists under Section 48(1)(a)	To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).
9.3 Landowner Agreement	Good reason for withholding exists under Section 48(1)(a)	To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

9.1 Public Excluded Lake Rotorua Incentives Committee minutes - 08 February 2018 45

9.2 Landowner Negotiations Update

This will be a verbal update.

9.3 Landowner Agreement

This Agreement and associated documents have been circulated under separate cover to Members who have not declared a conflict of interest in this matter.

10 Confidential business to be transferred into the open

11 Readmit the public

12 Consideration of General Business

Previous Minutes

Minutes of the Lake Rotorua Incentives Committee Meeting held in Summit Room, Sudima Hotel, 1000 Eruera Street, Rotorua on Thursday, 8 February 2018 commencing at 9.30a.m.

Present:

Chairman: Councillor N Bruning.

Appointees: Councillor K Winters, Dr T Kingi, G Rice.

In Attendance: Bay of Plenty Regional Council: C Ingle (General Manager, Integrated Catchments), R Garrett (Committee Advisor); Rotorua Lakes Incentive Board: T White (Incentives Programme Director), J Pani (Executive Support Partner).

Apologies: Dr T Petch, E Hughes.

1 Opening karakia

T White.

2 Apologies

Resolved

That the Lake Rotorua Incentives Committee:

- 1 Accepts the apologies of E Hughes and T Petch tendered at the meeting.**

**Winters/Kingi
CARRIED**

3 General Business and Tabled Items

Nil.

4 Declaration of conflicts of interest

Nil.

5 Previous Minutes

5.1 Lake Rotorua Incentives Committee minutes - 15 November 2017

Members requested that the Lake Taupō Protection Trust presentation be circulated.

Resolved

That the Lake Rotorua Incentives Committee:

- 1 Confirms the Lake Rotorua Incentives Committee minutes - 15 November 2017

Kingi/Rice
CARRIED

6 Public Excluded Section

Resolved

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
8.1 Public Excluded Lake Rotorua Incentives Committee minutes – 15 November 2017	That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7 LGOIMA 1987.	Please refer to the relevant clause in the meeting minutes.
8.2 Report: Lake Rotorua Incentives Agreements	That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7 LGOIMA 1987.	To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

Bruning/Winters
CARRIED

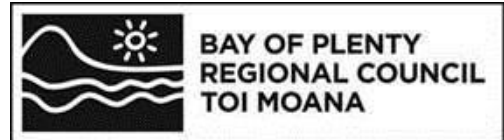
7 Confidential Business to be transferred into the open

Nil.

The meeting closed at 10.35 am.

Reports

Receives Only – No Decisions



Report To: Lake Rotorua Incentives Committee

Meeting Date: 15 June 2018

Report From: Chris Ingle, General Manager, Integrated Catchments

Update from Rotorua Land Management Team

Executive Summary

The purpose of this report is to provide an update on the Rotorua Land Management activity, including the progress of Advice and Support, the Gorse Programme, the implementation of Plan Change 10, the implications of the most recent OVERSEER® version change and the monitoring of Incentives Agreements.

Recommendations

That the Lake Rotorua Incentives Committee under its delegated authority:

- 1 Receives the report, Update from Rotorua Land Management Team.**

1 Purpose

The purpose of this report is to provide an update on the Rotorua Land Management activity that has taken place since the last Incentives Committee Meeting.

2 Advice and Support

Despite the uncertain environment, landowners are continuing to engage with the Advice and Support Service. Currently 140 landowners are working with Land Use Advisors to understand the nitrogen leaching from their current farm system and, where necessary, develop Nutrient Management Plans to show how a property's 2032 Nitrogen Discharge Allocation will be met. This includes 83 properties over 40 ha in size which is 87% of the estimated 95 properties in this category within the catchment.

55 previously signed Nutrient Management Plans are in the process of being reworked by Land Use Advisors to reflect the changes to the allocation methodology following the decision of the Commissioners on the Plan Change 10 hearings, including further detail on phosphorus mitigation.

3 Gorse Programme

Recent analysis of high resolution aerial photography estimates that there are approximately 330 ha of mature gorse available for conversion in the Lake Rotorua Catchment.

To date the uptake of the Gorse Programme has been impeded by the reluctance of some owners of Māori land to agree to the requirement for a 999 year encumbrance on land titles.

An updated Implementation Policy (2018-2022) has recently been approved by the Programme Steering Group which enables scattered gorse that is difficult and uneconomic to convert to be controlled through other Council funding streams such as the Regional Council's Sustainable Land Use Fund. However a 999 year encumbrance will remain a requirement for higher value gorse conversions accessing Crown Deed Funding on advice from the Ministry for the Environment.

It is planned to negotiate an annual work plan with NZTA to control roadside gorse (as part of the Regional Pest Management Plan) and with DOC to control gorse within conservation areas.

The original aim of the Lake Rotorua Gorse Conversion Project was to control mature gorse existing in the catchment in 2001-2004. However, from a practical perspective it makes sense to control mature gorse existing in the catchment today as the gorse that existed in 2001-04 no longer has practical relevance, other than for calculating progress towards the Integrated Framework Targets. Therefore, gorse conversions will be reported as total ha of current gorse removed by the Gorse Programme.

Two new Gorse Agreements are currently under negotiation which will remove an additional 120.5 ha of gorse, bringing the total area of gorse removed by the Gorse Programme to 221.6 ha.

4 Plan Change 10 Implementation

To date 2 resource consents have been granted under the provisions of Plan Change 10 and a further three applications are currently being processed. Further applications are expected in the near future as Nutrient Management Plans are finalised.

In March a letter and brochure was sent to 1555 rural land owners in the Lake Rotorua Catchment outlining their obligations under Plan Change 10 and asking for them to engage with staff for assistance to meet these. To date 37 phone calls have been received from landowners in response to the letter, of whom 8 have registered for Advice and Support, including three new properties over 40 ha.

Further landowner engagement is planned at the Rotorua Home Show on 13-15 July 2018 where Rotorua Catchments staff will be promoting all aspects of the Rotorua Te Arawa Lakes Restoration Programme.

5 OVERSEER® Version Change

OVERSEER® version 6.3.0 was released in March. Nitrogen losses from cropping have increased in this version and staff are currently analysing the reference files to understand the implications on Nitrogen Discharge Allocations and Managed Reduction Targets.

6 Monitoring Incentives Agreements

Individual Monitoring Plans are in place for the eight Incentives Agreements finalised to date and staff have commenced annual monitoring to ensure that the requirements of the Deed and Agreement are being met. A summary of monitoring is shown in Table 1. A copy of Table 1 identifying the landowners will be tabled at the meeting in the public excluded session, along with a copy of a current monitoring agreement.

A tracking spreadsheet has been developed to track the monitoring of each Agreement through time and to record if the landowner is compliant or non-compliant with the requirements of the Incentives Agreement.

Table 1: Summary of Incentives Agreement Monitoring

Incentives Agreement	Date Signed	Activation Date	Monitoring undertaken 2017/18	Compliant
Landowner 1	31 Aug 2016	31 May 2021	Scheduled for 31 Aug 2018	Yes
Landowner 2	27 April 2017	1 Aug 2016	Yes	Yes
Landowner 3	1 Mar 2017	1 July 2017	Yes	Yes
Landowner 4	1 Jul 2017	31 Dec 2019	Scheduled for 1 Jul 2018	NA
Landowner 5	15 Mar 2018	15 Mar 2020	Scheduled for 15 Mar 2019	NA
Landowner 6	5 Mar 2018	5 Mar 2020	Scheduled for 5 Mar 2019	NA
Landowner 7	28 Feb 2018	1 Jul 2018	Scheduled for 1 Jul 2018	NA
Landowner 8	23 Jun 2017	31 Dec 2019	Scheduled for 23 Jun 2018	NA

Two further Incentives Agreements have been signed and we are waiting for the solicitor for these landowners to obtain noting from the Māori Land Court.

As part the annual Regional Council audit, Audit New Zealand has reviewed Incentives agreements, including the Committee decision-making process.

7 Council's Accountability Framework

7.1 Community Outcomes

The Rotorua Catchment Activity directly contributes to the Community Outcomes of Water Quality and Quantity and Environmental Protection in the Regional Council's Long Term Plan 2015-2025 and the new long term plan currently under development.

The Rotorua Catchments Activity has the primary objective of contributing to the sustainable improvement of water quality in Lake Rotorua, by 2032.

7.2 Long Term Plan Alignment

This work is planned under the Rotorua Catchments Activity of the Regional Council's Long Term Plan 2015-2025 and the new long term plan currently under development as well as the Rotorua Te Arawa Lakes Programme.

Implementation is in accordance with planned targets and directly contributes to KPI 4 of the Long Term Plan which relates to nitrogen reduction in Lake Rotorua, as a contribution to the total nitrogen reduction target of the Integrated Framework.

Current Budget Implications

This work is being undertaken within the current budget for the Rotorua Catchments Activity in the Annual Plan 2017/2018 or Year 3 of the Long Term Plan 2015-2018.

Future Budget Implications

There are no implications for future expenditure other than that already expected and provided for.

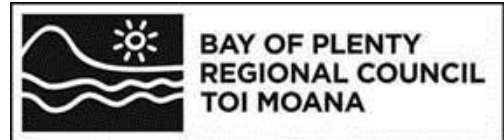
Rosemary Cross

Land Management Team Leader

for General Manager, Integrated Catchments

25 May 2018

Receives Only – No Decisions



Report To: Lake Rotorua Incentives Committee

Meeting Date: 15 June 2018

Report From: Chris Ingle, General Manager, Integrated Catchments

Update on Low Nitrogen Land Use Fund 2018

Executive Summary

The Low Nitrogen Land Use Fund (“LNLUF”) is established to support land use change in the Lake Rotorua catchment. In 2016 staff ran an open funding process which resulted in the completion of several projects. These completed projects have developed tools and information to support farmers to make more informed decisions about land use change.

The tools developed to date cover the most likely horticultural, agricultural and forestry land uses suitable for this catchment. Staff have identified two gaps from the first funding round, one being tourism and housing and secondly a tool to integrate multiple options. These were highlighted due to the large tourism industry which is unique to Rotorua and because many land uses are complementary not mutually exclusive.

Te Arawa Primary Sector group have been contracted to research and publish information on these additional land uses and run a series of workshops and if there is interest a field trip.

Finally staff will seek Expressions of Interests (“EOI”) by late September 2018 from land owners within the catchment who want to trial or further commit to low nitrogen land uses.

The following report recaps on progress to date, outlines gaps and the high level approach to LNLUF 2018, as approved by Rotorua Te Arawa Lakes Strategy Group in March this year.

Recommendations

That the Lake Rotorua Incentives Committee under its delegated authority:

- 1 Receives the report, Update on Low Nitrogen Land Use Fund 2018;**

1 Background

Cabinet approved the reallocation of funds to support land owners in the Rotorua Catchment in April 2014, specifying how the Crown portion (50%) of the \$5.5 million may be used as follows:

“That of the \$2.75 million Crown funding to support landowners to achieve nitrogen discharge allowances, the funding be used for: Farm business planning and trials of low nitrogen land uses.”

The Regional Council has agreed its funds are to be used to support land use change in the Lake Rotorua Catchment, noting the expectation through the Deed of Funding that Regional Council and Crown funds will be used for the same purpose.

In March 2016 the Rotorua Te Arawa Lakes Strategy Group (the Strategy Group) approved a decision making framework for the Low Nitrogen Land Use Fund – Round 1, in accordance with the approved Investment Plan which was developed in collaboration with stakeholders during 2015.

The funding process was completed in accordance with the Investment Plan in June 2016 and this process resulted in the projects outlined below.

Land Resource Guide - This is a compendium of information on multiple land uses, including horticulture, agriculture and forestry. The web based portal is available for use (see <https://landusenz.org.nz/>.)

D-Nitro - This is a web-based tool which provides analysis of the expected performance of planting land in either Radiata pine or Mānuka.

Hazelnut Trial - This project is ongoing and trials new and existing varieties of hazelnuts for the Rotorua catchment.

Whenua Ora - This project worked with 10 dairy and drystock land owners and undertook detailed farm system changes aimed at reduce discharges and increasing profit. The project is complete in that information on land use changes has been provided to land owners, and advice was provided. Two land owners are interested in implementing the advice provided.

Best Practice Videos - This project developed 9 videos on Good Management Practices which are available to view.

Ngāti-Whakaue Tribal Lands Multi Project - This project has completed business cases for sheep milking and free range eggs. Further negotiations are pending for a crop trial.

Post Project Review

Interviews have been carried out with all LNLUF contracts completed to date. This process resulted in minor further works to optimise the outcomes of existing projects. In addition staff also reviewed the scope of the projects and believe that the existing projects broadly cover the most likely land uses within the agriculture, forestry and horticultural sectors.

However a potential gap was identified, being Rotorua’s unique position in tourism and visitor attraction, which could provide alternative or additional income streams for landowners.

In addition, to the information gap in tourism and housing, staff acknowledge that each land use change is not stand alone and packaging up a systems solutions could make a more compelling financial proposition for change to a low nitrogen land use.

Finally, demonstration is a well-known tactic to influence change. In the first round of funding only one trial was established across the catchment (Hazelnuts). One of the aims for 2018 is to increase the number of trials and actual change.

Taking on board these gaps and the work completed to date staff are implementing the following plan in 2018.

2 Implementation Plan 2018

The aim in 2018 is to plug any gaps in land uses, increase public awareness through extension of information and education, and seek EOI to trial low nitrogen land uses in the Rotorua catchment. This approach builds on the work already completed to date and will be completed sequentially and broadly include the following three stages.

Stage 1 – Research

Staff have contracted TAPS to compile financial and management information on basic tourist opportunities, additional accommodation opportunities, subdivision and forestry.

This information will be built into example scenarios, such as forestry, accommodation and bike tracks, or farming, horticulture and accommodation.

Stage 2 – Extension of information and education

Whilst some promotion has occurred of the existing LNLUF projects further education and extension of information could encourage greater use and uptake.

A public launch is planned for early July with an inspirational speaker to encourage attendance from business and rural sector. This will inform of upcoming workshop series and the opportunity to apply for funding in September to trial low nitrogen land uses.

Pamphlets will also be produced outlining the opportunities for additional subdivision, housing, and farm tourism as well as forestry and the associated carbon income.

The launch and workshop series will commence on the 3rd July and run throughout July with a field trip tentatively planned for the 25th July.

Stage 3 - Expression of Interest

Staff aim to seek Expressions of Interests from catchment land owners for trialling low nitrogen land uses by the end of September 2018 and negotiate land use change trials before the end of 2018 calendar year.

Future Budget Implications

Future work on the Low Nitrogen Land Use Fund is proposed in Council's Long Term Plan 2018-2028.

Anna Grayling

Principal Advisor Rotorua Catchments

for General Manager, Integrated Catchments

1 June 2018

Report To: Lake Rotorua Incentives Committee

Meeting Date: 15 June 2018

Report From: Chris Ingle, General Manager, Integrated Catchments

Pricing and Negotiation Strategy

Executive Summary

The purpose of this report is for the Incentives Committee to approve an updated Pricing and Negotiation Strategy.

Recommendations

That the Lake Rotorua Incentives Committee under its delegated authority:

- 1 Receives the report, Pricing and Negotiation Strategy;**

1 Purpose

The purpose of this report is for the Incentives Committee to approve an updated Pricing and Negotiation Strategy.

2 Background

In May 2016 the Lake Rotorua Incentives Board adopted business rules to provide guidance on pricing and negotiation strategy. This strategy document "Pricing and Negotiation Strategy" was to be regularly reviewed.

In 2017 the Lake Rotorua Incentives Committee agreed on an expression of interest process for purchasing amount of Nitrogen less than 1 tonne. This process included approval of an assessment matrix.

Both the Pricing and Negotiations Strategy and the Assessment Matrix have been reviewed and combined into one document that was circulated by email and is now being presented to the Incentives Committee for approval.

3 Council's Accountability Framework

3.1 Community Outcomes

The Lake Rotorua Incentives Scheme directly contributes to the Community Outcomes of Water Quality and Quantity and Environmental Protection in the Regional Council's Long Term Plan 2015-2025.

The Lake Rotorua Incentives Committee has the primary objective to contribute to the sustainable improvement of water quality in Lake Rotorua, by achieving a permanent 100 tonne reduction of nitrogen entering Lake Rotorua and ensuring this investment of Council is protected in perpetuity.

3.2 Long Term Plan Alignment

The Incentives Scheme is planned and funded under the Rotorua Catchments Activity of the Regional Council's Long Term Plan 2015-2025 and the Rotorua Te Arawa Lakes Programme.

Implementation is in accordance with planned targets and directly contributes to KPI4 of the Long Term Plan which relates to nitrogen reduction in Lake Rotorua, as a contribution to the total nitrogen reduction target of the Integrated Framework.

Current Budget Implications

The Lake Rotorua Incentives Scheme is within the current budget for the Rotorua Catchments Activity in the Annual Plan 2017/2018 or Year 3 of the Long Term Plan 2015-2018.

Future Budget Implications

There are no implications for future expenditure other than that already expected and provided for.

Jude Pani
Incentive Board Support

for General Manager, Integrated Catchments

25 May 2018

APPENDIX 1

Pricing and Negotiation Strategy May 2018

Pricing and Negotiation Strategy

Context

The Lake Rotorua Incentives Committee appointed in late 2014 and re-established in 2016 is mandated to purchase 100 tonnes of nitrogen (in lake) below regulatory limits from willing landowners and do so within a budget of \$40 million.

An Incentives Policy was approved in July 2014 by the Bay of Plenty Regional Council (Council) and the Rotorua Te Arawa Lakes Strategy Group. This sets out the policy approach, principles and conditions of funding.

The Committee's Terms of Reference (TOR), establishes the responsibilities and delegated authority under which the Committee is required to operate. Additionally the Committee has confirmation from the Council to enter into agreements prior to Plan Change 10 being finalised.

It is within this context that a pricing and negotiation strategy was prepared.

Eligibility for Incentives

The TOR state that there will be a permanent reduction of 100 tonnes of nitrogen entering Lake Rotorua from the Lake Rotorua groundwater catchment, therefore eligibility will apply only to landowners within the Lake Rotorua Groundwater catchment affected by Plan Change 10 who have more than 150kg in lake to sell.

Distribution and Conditions of Purchasing

An open door policy for all eligible landowners on a "willing seller – willing buyer basis" will apply with the right to prioritise according to the value proposition presented on a case by case basis.

Priorities for purchasing will take into consideration:-

- Quantity of nitrogen on offer
- Economic and environmental benefits for the catchment.

Other matters that may be considered include:-

- Landowner circumstances – financial position, impacts on capital value of land, pNDA;
- Complexity of land use change options and associated compliance and monitoring requirements;

Conditions for purchasing include:-

- Purchasing by way of negotiated settlement on signing of agreed transaction documents by authorised signatories;
- Transaction documents pursuant to funding will include a commercial agreement, a deed of agreement securing the nitrogen in perpetuity and a notified encumbrance on title;
- Purchasing will be based on in-lake nitrogen purchased.

Basis for Negotiations

It is acknowledged that there are inherent risks in negotiations proceeding prior to confirmation of Plan Change 10. While a precautionary approach to negotiations may be necessary, this will be reflected in the transaction documents with a view of shared risk and return.

Negotiations will be conducted in a timely, transparent and fair manner and must remain confidential between parties.

Negotiations will be subject to confirmation by the Council staff that:-

- all property details are correct;
- a Nutrient Management Plan (NMP) has been received and quality assured in accordance with the relevant Overseer file;
- provisional nitrogen discharge allocation (NDA) has been assigned;
- nitrogen available for sale has been assessed;

It is expected that all parties to negotiations will engage their own independent legal advice at own costs prior to entering into negotiations.

Basis for Pricing

\$40 million is available to purchase 100 tonnes of nitrogen in-lake by December 2022. In accordance with the Committee's TOR, an unsustainable average price must not be established and due diligence requirements as set out in the Lake Rotorua Incentives Policy July 2014 must be satisfied.

The ultimate price paid is also a reflection of risk/return. Some key risk/return factors include:

Rules/Overseer changes

- Rules are not operative and are open to change through the hearings process;
- On-going changes to Overseer and attenuation models.

Planning/Monitoring

- Quality and viability of the NMP;
- Capability of the Landowner or future landowner to achieve the NMP;
- Ease of monitoring;
- Different land use systems are modelled to different levels of accuracy eg cropping may have significant variability whereas plantation forests may have limited variability.

Quantity

- Quantities will vary greatly between agreements. Whilst greater quantities of nitrogen per agreement create economies of scale and reduce the transaction price, they also increase certainty that a benefit is being made.

Agreement/Financial

- Time period of land use change versus payment schedule;
- Reconciliation of the deal with Banks;
- Agreement adequately secures nitrogen in perpetuity and mitigates risk of non-compliance.

Pricing

In consideration of the above uncertainties and associated risks an upper price cap of \$400/kg of nitrogen in-lake and a baseline of \$250/kg has been established for in-lake nitrogen. Price negotiations will proceed within this range with price set on a case by case basis based on a number of other considerations which may include the following:-

- Level of Security Provided
- Level of Reduction
- Co-benefits
- Unintended Consequences
- Outcome of Due-Diligence Process

Negotiations

In determining a negotiation strategy the following is noted:-

- Leveraging other incentives, carbon, subdivision, AGS etc, is critical;
- There is a fixed budget to purchase a fixed amount of nitrogen in a fixed period of time;
- Confidentiality is important and must be managed;
- The process must be transparent, understandable and trusted by the community;
- Negotiations are premised on a “willing seller-willing buyer” basis.

Summary

While this strategy provides guidelines that are consistent with the intent of the 2014 Incentives Policy and the Committee’s Terms of Reference, it is acknowledged that the principle of “willing seller – willing buyer” is premised on the need for flexibility. Each case will be different and will require a measured judgement call within the parameters of this strategy document.

Additionally, there are risks inherent in any negotiation. It is the responsibility of all parties concerned to seek independent technical and legal advice to mitigate and to share in these risks.

A Pricing Strategy Negotiations Checklist (Appendix 1) has been developed to assist negotiations.

An Assessment Matrix (Appendix 2) developed to assist with purchase of less than 1 tonne is available to assist pricing negotiations.

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Appendix 1 – Pricing Strategy – Negotiations Checklist

LANDOWNER:

DATE:

A	GENERAL		
1	Ownership checked		
2	Nitrogen within catchment		
3	Property Details correct		
4	Documentation signed off by Ellice Tanner Hart		
5	Landowner confirmed has had own legal advice		
6	Banks sign off		

B	NUTRIENT MANAGMENT PLAN		
1	Overseer version		
2	pNDA		
3	N for sale in lake		
4	Attenuation rate		
5	Date N reduction achieved		
6	NMP signed off by Council		

C	NEGOTIATIONS taking into account		
1	Quantity of nitrogen on offer		
2	Risk factors with achieving and monitoring of NMP		
3	Optimal economic, social and environmental outcome for Catchment		
4	Landowner circumstances		
5	Timing of payment		
6	Policy Parameters		
7	Other Factors		

D	AGREEMENT		
1	Price per kg		
2	Total kg purchased		
3	Terms of agreement		
4	Deviations in agreement from policy		
5	Other		

Any Further Comment:

Catchments Manager sign off:

APPENDIX 2

Pricing and Negotiation Strategy Assessment Matrix

Assessment Matrix – Pricing and Negotiations Strategy

	High Value (\$340 per KG at lake)	Medium Value (\$300 per KG at lake)	Low Value (\$275 per KG at lake)
Level of Security Provided	<ul style="list-style-type: none"> Land use change to Trees Land use change already made Benefits of chosen land use change well modelled/understood. 	<ul style="list-style-type: none"> Land management change, well established 	<ul style="list-style-type: none"> Land management change, not yet made. Land management change where benefits not clearly established e.g., crops, new land uses with unproven science.
Level of Reduction	<ul style="list-style-type: none"> >60% reduction from provisional Nitrogen Discharge Allowance under proposed Plan Change 10. 	<ul style="list-style-type: none"> 60% or less reduction from provisional Nitrogen Discharge Allowance under proposed Plan Change 10. 	<ul style="list-style-type: none"> 50% or less reduction from provisional Nitrogen Discharge Allowance under proposed Plan Change 10.
Co-benefits	<ul style="list-style-type: none"> Offers quantifiable and certain co-benefits for Rotorua in at least two areas, e.g. cultural, biodiversity, economic, social. Reduces phosphorous loss. 	<ul style="list-style-type: none"> Maintains status quo phosphorous loss. Offers quantifiable and certain co-benefits for Rotorua in at least two areas, e.g. cultural, biodiversity, economic, social. 	<ul style="list-style-type: none"> No identifiable co-benefits. Maintains status quo phosphorous loss.
Unintended Consequences	<ul style="list-style-type: none"> No unintended consequences. 	<ul style="list-style-type: none"> Minor identifiable un-intended consequences, e.g. social, cultural. 	<ul style="list-style-type: none"> Nitrogen transfer to another groundwater catchment. Evident un-intended consequences, e.g. social, cultural.
Outcome of Due-Diligence Process	<ul style="list-style-type: none"> High degree of trust and confidence identified through due-diligence process, all aspects of due-diligence fulfilled. Landowner demonstrates full willingness to comply with proposed Plan Change 10. 		

Receives Only – No Decisions



Report To: Lake Rotorua Incentives Committee

Meeting Date: 15 June 2018

Report From: Chris Ingle, General Manager, Integrated Catchments

2017-2018 Strategic Review - Lake Rotorua Incentives Scheme

Executive Summary

The Terms of Reference for the Incentives Committee requires that an Annual Strategic Review of the operation of the Incentives Scheme (the Scheme) is undertaken. This paper summarises the review for the current year of operation of the Scheme.

In August 2016, John Hutchings of HenleyHutchings undertook a quality assurance review of the Scheme, the first review of the Scheme following its first 18 months of operation. The purpose of the review was to reflect on the progress made and the structure in place to deliver the necessary outcomes of the Scheme and any necessary changes.

Mr Hutchings recommended a number of tweaks to the operation and structure of the Scheme and these were adopted by the Regional Council.

As you are aware, the General Manager Integrated Catchments has, since the last meeting of the Committee, had independent advice on the structure of the Rotorua Catchments Team to deliver to the wider objectives of the Rotorua Catchments Activity, including the Scheme. This work, combined with a reflection on the progress so far of the Scheme towards its long term targets informs two enhancements to be made to the Scheme. These include aligning the next steps of the Low Nitrogen Land Use Fund to the Scheme and doubling the staff resources directly involved in the Scheme. Both intended to gain more traction in the 'pipeline of deals' with the Scheme to meet the 2022 target.

Recommendations

That the Lake Rotorua Incentives Committee under its delegated authority:

- 1 Receives the report, 2017-2018 Strategic Review - Lake Rotorua Incentives Scheme.**

1 Progress to Date

John Hutchings's review made recommendations based on interviews with a variety of stakeholders, directors and employees of the Scheme. Twenty eight recommendations were made for enhancement of the existing Scheme in:

Governance, Relationships and Accountability, Decision Support, Operational and Implementation matters. The implementation of those recommendations is now largely complete with a few related to the next steps with the Low Nitrogen Land Use Fund in progress or under consideration; in-particular further exploration of innovative approaches to land use change and further exploration of land purchase. These matters require further direction from the Rotorua Lakes Strategy Group before being progressed further.

The Committee will be aware that the staff resourcing of the Scheme to this point has been the Director of the Scheme and Executive Assistant both working part time, supported by other staff in the Rotorua Catchments team as required for technical support. As the Committee are also aware the current team are on track to achieving around 20 percent of the 100 tonne target this financial year.

2 Moving Forward

The Incentives Scheme has deals of around 20 tonne, secured or near completion. While this is considered reasonable progress in light of the uncertainty still surrounding Proposed Plan Change 10 (which underpins the Integrated Framework and is currently in an Environment Court process), there may be scope to enhance the resourcing of the Scheme to develop the pipeline of deals ahead for the Scheme.

A review of the wider Rotorua Catchments operations has recently been completed, focussed on structure and staffing of the work in the Rotorua Catchments Activity which includes the Scheme. This review has identified enhancements that could be made to the resourcing. In addition, recent work by staff to establish next steps for the Low Nitrogen Land Use Fund, approved by the Rotorua Te Arawa Lakes Strategy Group in March, has identified the need for this to be focussed on on-the-ground investment in land use change, with the intention of increasing up-take in the Scheme. Therefore there is a need to more closely align the two. Staff intend to call for Expressions of Interest for trials of low nitrogen land uses in the Lake Rotorua Catchment before the end of the calendar year. With the same staff working in the Scheme and the Low Nitrogen Land Use Fund it is considered integration will be achieved.

Based on the above, the General Manager for Integrated Catchments has tweaked the operation of the Scheme for two purposes: to inject more targeted staff resources and to align the remaining Low Nitrogen Land Use Fund to the Scheme. Both of these are intended to double and diversify the resources and options available to the Scheme to help it meet its 2022 target.

Both of these will see a Principal Advisor to the Catchment (Anna Grayling) and the Rotorua Catchments Manager with more involvement in the Scheme, adding to the resources of the current staff resources working in the Scheme and focussing on building the pipeline of nitrogen to the Scheme and securing more deals.

3 Community Outcomes

This work directly contributes to the Water Quality and Quantity and Environmental Protection Community Outcomes in the Regional Council's Long Term Plan 2015-2025.

Long Term Plan Alignment

This work directly contributes to the Water Quality and Quantity and Environmental protection Community Outcomes in the Regional Council's Long Term Plan 2015-2025.

Current Budget Implications

This work is being undertaken within the current budget for the Rotorua Catchments Activity in the Annual Plan 2017-2018 or Year 3 of the Long Term Plan 2015-2025.

Future Budget Implications

Future work is provided for in the Rotorua Lakes Council and Bay of Plenty Regional Council's Long Term Plan 2018-2028.

Helen Creagh
Rotorua Catchments Manager

for General Manager, Integrated Catchments

7 June 2018

