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Statement of Expectations – Section 64B of the Local Government Act 2002 Bay of Plenty Regional Council

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Tēnā koe Dr Parker

Statement of Expectations for 2024 to 2027 – Quayside Holdings Ltd and Toi Moana Trust

This Statement of Expectations (SOE) sets out the Bay of Plenty Regional Council's (Council) priorities and expectations to inform the development of Quayside Holdings Limited's (Quayside) draft Statement of Intent (SOI) for the year ended 30 June 2025. Council's priorities and expectations for Toi Moana Trust (TMT), managed by Quayside, are also included in this SOE.

Quayside purpose

Quayside describes its purpose in its June 2023 Annual Report:

“To grow a responsible and diversified fund that generates long term returns to support the growth and prosperity of the Bay of Plenty. We want to have impact past the generation of today, to provide a resilient dividend for our shareholder for the betterment of our rohe and its people.”

Council endorses this purpose, noting that Quayside's success is fundamental to enabling Council to fulfil its own purpose.

Context

During 2023 Quayside has continued to make a vital contribution to the Bay of Plenty community, mainly through its dividend which helps fund Council's services to the Bay of Plenty's environment and people, but also through its investment in the regional economy. Council thanks Quayside for its contribution and its ongoing commitment to regular collaboration and information sharing with Council staff and elected members.

As part of developing its Long Term Plan for public consultation, Council has updated its strategic direction and has identified priorities for the next three years. Council wants to place emphasis on working with its partners, stakeholders and communities to identify opportunities to collaborate and deliver more for residents.

This SOE recognises decisions and recommendations made by Quayside during 2023, particularly the results and recommendations of its work to review its corporate settings and consider its role in the future. These two matters are interrelated and while some of the aspects dealing with corporate settings are discussed elsewhere in this SOE, Council intends to re-visit advice about the future structure of Quayside during 2024/25, in the light of decisions on Council's strategic assets that are yet to be made.

Objective ID A4565542

Port of Tauranga shareholding

The Port of Tauranga Limited (POTL or the Port) is a strategic asset for the region and Quayside is currently required to maintain a majority shareholding in the Port. As Quayside is aware, through the development of its Long Term Plan 2024-2034, Council intends to consult with the community on whether or not to enable Quayside to divest part of its shareholding in the Port, in order to achieve greater regional benefit over the long term. This will be a specific question in Council's LTP Consultation Document.

A final decision on the matter will only be taken by Council by June 2024 during the deliberations phase of its Long Term Plan development, which considers feedback received during the consultation process.

Internal review expectations

The decision that Council takes by June 2024 regarding the Port shareholding will provide clear direction for Quayside in relation to the balance between its Port and non-Port investments. Council expects that Quayside will undertake an organisational review to ensure it is fit for purpose, with and without divestment of Port shares, and that a change programme is put in place if divestment is enabled.

As part of a change programme, Council expects that the new Investment Committee's role will be reviewed and that an independent review of the Statement of Investment Policy and Objectives (SIPO) is undertaken. Council expects that one of the purposes of the SIPO review will be to consider how best to provide Council with a reliable dividend stream over the short, medium and long terms.

Council distribution expectations

Quayside's Distribution Policy reflects an endowment model which weights both historical distributions (over 3 years) and current asset values. In 2023 Quayside altered the Distribution Policy, replacing the gross assets component with net assets. Unless other changes are made to the formula, this would have the effect of reducing distributions for 2024 and beyond. Despite the policy change, Council expects to receive the dividends signalled in Quayside's 2023-2026 SOI, being \$45 million for 2023/24, \$47 million for 2024/25 and \$48 million for 2025/26.

If Council decides (after consultation through the LTP 2024-2034 process) to enable Quayside to sell some of the Port shares, it expects that the Quayside dividend policy would be reviewed and that as a result there would be a step change in the distribution expectations. Council expects to be appropriately involved in such a review.

Investment performance targets and reporting

In the past Quayside has set a target for investment returns expressed as a percentage of the investment portfolio, being a five-year rolling gross return of 7% per annum. Given the current volatility of the financial markets, Council would like Quayside to consider the feasibility and implications of setting a target linked to one or more market rates of return.

Setting targets for different returns by class of asset (e.g. listed asset portfolio, real asset portfolio, private equity) and separate reporting on strategic assets and transition portfolio (if a decision to divest a portion of Port shares was taken) would provide Council with greater transparency of investment performance within the portfolio.

Additionally, it is important that Quayside quantifies and communicates regional benefits delivered in relation to non-Port assets. Council would like Quayside to report back on how they can improve transparency of reporting to the community for assets held on behalf of the community. In making this request, Council acknowledges that some information is commercially sensitive, but also believes some could be made public.

Toi Moana Trust

TMT is a separate CCO which Quayside manages on Council's behalf. It is an uncommitted reserve of Council intended to provide financial resilience.

The forecast dividend on the TMT portfolio was set in the TMT SOI for 2023-2026 at 5% of the amount invested by Council, being \$70 million. In June 2023 the portfolio was valued at \$71.6 million. Given the significant change in interest rates over the last 18 months, and the expectation that interest rates will remain relatively high over the next few years, Council would like Quayside to advise when a review of this target should take place – either an appropriate time, or a trigger.

Perpetual Preference Shares

Council notes that if it decides, after consultation on its LTP 2024-2034 proposals, to enable Quayside to reduce its shareholding in the Port below 50.1%, the put call on the Perpetual Preference Shares (PPS) will likely be exercised by PPS holders. If this occurs, Council will consider whether the proceeds of any sale of Port shares should be used to fund the redemption of the PPS and would like Quayside to consider and provide advice about the processes that may be used, effective tax treatment and any other relevant financial implications from the Council Group perspective.

Rangiuru Business Park development

The development of Rangiuru Business Park is strategically important to the region and Council supports Quayside progressing this investment. Recent updates received on the progress of the development are acknowledged and Council looks forward to this continuing.

Discussions between Quayside and Council in October 2023 highlighted the challenges and opportunities for financing the development. Council agreed to defer repayments of loans due in 2024/25 to 2026/27 under the Rangiuru Facility Agreement and Quayside indicated that it may seek an increase to this facility. Council encourages Quayside to pursue alternative financing opportunities, for example with Crown Infrastructure Partners, in the first instance, as it would reduce the inherent risk for the Council Group, and ultimately, for ratepayers.

Other strategic land holdings

Council also has an interest in the Tauriko land, which Quayside currently holds on behalf of the Council. Council has previously identified this land as having strategic benefit and as a result divestment of this land should only occur with the agreement of Council.

Opportunities for Quayside to explore

The Local Government Funding Agency Limited (LGFA) is continually developing its finance offerings, some of which focus on offering cheaper borrowing to finance projects that have environmental or social benefits. Quayside could consider whether there are opportunities to secure cheaper financing through such means and whether there are efficiencies in Quayside borrowing directly from the LGFA.

Interim decision of the Environment Court on Port of Tauranga dredging consent

Quayside will be aware of the interim decision of the Environment Court on the Port's resource consent application, issued on 13 December 2023. Against this background, Council would like to hear and understand how Quayside intends to manage its relationship as the majority shareholder of the Port.

Process to develop Quayside Group Statement of Intent

Council requests that Quayside develop a SOI for the whole Quayside Group, rather than separate SOIs for each of its related council controlled organisations. Strategic planning for these subsidiaries is encouraged but Council would like assurance that such planning would not result in documents that are construed to be SOIs in terms of section 64 of the Local Government Act.

In closing, Council looks forward to working with Quayside to reflect the expectations in this SOE in developing Quayside's SOI for the year ended 30 June 2025.

Nā to rourou, nā tāku rourou, ka ora ai te iwi. With your contribution and mine, the people will prosper.

Ngā mihi nui



Doug Leeder

Chair

Bay of Plenty Regional Council - Toi Moana

cc: Lyndon Settle