



# Rotorua Te Arawa Lakes Strategy Group Rārangi Take (Agenda)

NOTICE IS GIVEN that the next meeting of the Rotorua Te Arawa Lakes Strategy Group will be held in Bay of Plenty Regional Council, Waiariki Room, Corner Fenton & Pukaki Street, Rotorua on:

FRIDAY 12 FEBRUARY 2021 COMMENCING AT 09:30 AM

**Bay of Plenty Regional Council,  
Rotorua Lakes Council and  
Te Arawa Lakes Trust.**

*Working as one to protect our lakes with funding  
assistance from the Ministry for the Environment.*

Fiona McTavish  
Chief Executive, Rotorua Te Arawa Lakes Strategy Group  
3 February 2021

# Rotorua Te Arawa Lakes Strategy Group

## Membership

<b>Poū Tākiwaiora (Independent Chairperson)</b>	Sir Toby Curtis
<b>Deputy Chairperson</b> (appointed by Group)	Mayor Steve Chadwick (Rotorua Lakes Council)
<b>Members</b>  Two representative from each of the partner Councils one of whom must be the Chair/Mayor:  Bay of Plenty Regional Council  Rotorua Lakes Council  Governance representatives from Te Arawa Lakes Trust	Chairman Doug Leeder Cr Kevin Winters Cr Te Taru White (Alternate)  Deputy Mayor Dave Donaldson To be confirmed (Alternate)  Roana Bennett Nuki Nicholson Rangitihī Pene (Alternate)
<b>Observer from the Ministry for the Environment</b>	Martin Workman (Director Water)
<b>Quorum</b>	One appointed member from each of the partner organisations
<b>Meeting frequency</b>	Quarterly

## Purpose

To contribute to the promotion of the sustainable management of the Rotorua Te Arawa Lakes and their catchments, for the use and enjoyment of present and future generations, while recognising and providing for the traditional relationship of Te Arawa with their ancestral lakes.

## Role

- Provide leadership to the organisations and the community in relation to implementation of the Vision and Strategy for the Lakes of the Rotorua District originally adopted in 2000 and refreshed version adopted by the Strategy Group in 2013.
- Identify significant existing and emerging issues affecting the Rotorua Te Arawa Lakes and respond appropriately.
- Approve, monitor, evaluate, and review agreements, policies and strategies and all other proposals to achieve integrated outcomes for the Rotorua Te Arawa Lakes.



<b>Pūrongo Ki: Report To:</b>	Rotorua Te Arawa Lakes Strategy Group
<b>Rā Hui: Meeting Date:</b>	12 February 2021
<b>Kaituhi Pūrongo: Report Writer:</b>	Helen Creagh, Rotorua Catchments Manager and Stavros Michael, General Manager Infrastructure
<b>Kaiwhakamana Pūrongo: Report Authoriser:</b>	Chris Ingle, General Manager, Integrated Catchments
<b>Kaupapa: Purpose:</b>	To consider recommendations related to funding of wastewater schemes at Rotoiti, Rotoehu and Rotoma under the Deed of Funding for the Rotorua Te Arawa Lakes Programme.

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## Wastewater Scheme Funding

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### Whakarāpopototanga Executive Summary

This paper provides analysis on the forecast end to end expenditure of the Programme and further rationale for a proposed transfer of funding to Rotorua Lakes Council to assist completion of the Rotoiti wastewater scheme. The paper also considers the next steps for acquiring funding for reticulation at Lake Rotoehu and Ngamotu on Lake Rotomā.

Also considered is the overall effect of inflation on the ability of the Programme to achieve its goals in respect of reticulation, considering that the Deed was established over 15 years ago with no adjustments to reflect the escalating actual implementation costs.

### Ngā tūtohutanga Recommendations

**That the Rotorua Te Arawa Lakes Strategy Group:**

- 1 Receives the report, Wastewater Scheme Funding**
- 2 Notes that the Rotorua Te Arawa Lakes Strategy Group resolved on 5 August 2020 to *“Instruct all officers to reconfirm the Deed-Funding contribution to***

***the final actual cost of the project in line with precedent policy and provide an update report to the next meeting of the Strategy Group”.***

- 3 Approves a reversion back to the total funding allocations for each Council as per the original 2005 Deed. That is, \$32.5 million for Rotorua Lakes Council and \$39.8 million for Bay of Plenty Regional Council. Note: A Deed Variation will be required.**
- 4 Agrees to make a formal request to the Minister for reconsideration of the current Deed of Funding in respect of an adjustment on the basis of inflation of construction costs, acknowledging the 2005 cost estimates in the Deed do not reflect the 2021 actual costs to complete these works.**
- 5 Agrees to make a formal request to the Minister for new funding support in relation to the wastewater reticulation of Lake Rotoehu.**

## 1. He Whakamārama Background

Lakeside wastewater reticulation is delivered by Rotorua Lakes Council as the mandated service provider and has received Ministry for the Environment funding from the Funding Deed<sup>1</sup> for the Programme, from both Council and from landowners. The Ministry of Health has also contributed to lakeside sewerage reticulation outside of the four priority lakes not covered by the Funding Deed, where improved health outcomes were targeted.

Wastewater reticulation improves water quality and contributes to the various goals related to improvement of lake water quality in the Vision and Strategy for the lakes of the Rotorua District, the implementation of which is overseen by the Strategy Group. It also provides landowners with a cost effective method (due to economies of scale) for dealing with wastewater and with opportunities to develop their land appropriately should they wish to – also contributing to the delivery of the Strategy.

Under the Rotorua Te Arawa Lakes Programme - lakeside reticulation has been completed in the Rotorua, west Rotoiti and Okareka catchments. Lakeside reticulation is also underway in other parts of Rotoiti and the Rotoma catchment. Reticulation is also planned for the Tarawera catchment.

At its last meeting on 5 August 2020 the Strategy Group received a paper from Stavros Michael, Mana Hautu Tuapapa at Rotorua Lakes Council. The paper updated the Strategy Group that the actual costs of the Rotoma/Rotoiti scheme are expected to be a variance to the initial 2015 estimate and broadly within the limits of the initial estimate’s uncertainty of 30%.

That 5 August 2020 paper recommended that on the basis of precedent policy the actual variance to the estimate should be funded by 50% from the Deed. The Rotoiti/Rotoma scheme has always been treated as one single scheme. After consideration of that paper, Strategy Group resolved to instruct officers to reconfirm the Deed funding contribution to the final actual cost of the project.

This paper now provides analysis on the forecast end to end expenditure of the Programme and further rationale for the proposed transfer. This paper also considers the next steps for acquiring funding for reticulation at Lake Rotoehu and the overall

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<sup>1</sup> The Rotorua Te Arawa Lakes Programme was established following Te Arawa’s Treaty of Waitangi settlement with the Crown in 2006. As part of that settlement the Crown committed to restoring the lakes of Te Arawa. That commitment included a Funding Deed which provided \$72 million of Crown funds to a restoration programme on four priority lakes: Rotorua, Rotoiti, Ōkāreka and Rotoehu. The Programme is a partnership between Te Arawa Lakes Trust, Rotorua Lakes Council and Bay of Plenty Regional Council.

effect of inflation on the ability of the Programme to achieve its goals in respect of reticulation, considering that the fund was established over 15 years ago with no adjustments to reflect the escalating actual implementation costs.

There also remains an opportunity for reticulation at Lake Rotoehu and Ngamotu (Lake Rotoma) settlements which can connect to the Rotoma/Rotoiti network, currently under construction and whose resource consent allows for such connection. The Lake Water Quality Technical Advisory Group having advised that *“...reticulation of lakeside communities for better treatment of sewage nutrients must be a standard recommendation, that has other benefits beyond nutrient reduction”*.

## 2. Transfer of Underspends to Rotoiti Reticulation (Recommendation One)

This paper recommends to transfer funds from underspends on completed lakeside reticulation projects in Okareka and Rotorua and other underspends within the Programme such as in Land Use Incentives Administration, to initially support the completion of the reticulation work at Lake Rotoiti.

Previously reticulation at Okere Falls, Otaramarae and Whangamarino on Rotoiti was completed at a cost of \$10,354,000. Lake Rotoiti reticulation works at Gisborne Point, Rotoiti and Hinehopu are now in progress. It is planned to reticulate 435 properties with a current total forecast spend (based on tenders received) of approximately \$40 million (noting that tender negotiations and final contract award are still underway for the remaining parts of scheme construction).

At its last meeting, the Strategy Group received a paper from Rotorua Lakes Council relating to the status and the challenges of the ongoing project. The paper recommended the Group instruct officers to *‘re-align the Deed Funding contribution to the final actual cost of the project in line with precedent policy’*. The Strategy Group resolved to instruct officers to commence that process.

Changes to the Deed in 2014 (Schedule 2) re-allocated the Crown funding between Rotorua Lakes Council and the Bay of Plenty Regional Council. The reallocation was largely as a result of achieving outcomes for less than the initial estimated costs, in the reticulation of Lake Okareka and Lake Rotorua. The changes to the total allocations to each Council can be viewed in Table One below. Smaller changes made in 2013 are also shown.

**Table One** - Total Funding Allocations between Original Deed (2005) Variation (2013) and Variation (2014)

	Original Deed (2005)	Deed Variation (2013)	Deed Variation (2014)
RLC	\$32,500,000	\$32,400,000	\$25,734,000
BOPRC	\$39,800,000	\$41,350,000	\$46,464,000
MFE	\$72,300,000	\$72,300,000	\$72,198,000

The 2014 changes were made in the knowledge that Schedule 2 would likely need to be revisited as the Programme moved forward and the actual cost and appropriateness of interventions adapted over its life. Interventions completed later in the Programme (when the relative value of the funds is less and the complexity and costs of the construction higher) will incur more cost compared to those

completed earlier in the Programme (when the relative value of the fund was higher and the complexity and costs of construction lower).

Following advice of the Programme’s Chief Financial Officers Forum, an updated end to end forecast has been prepared for the Programme, based on the current Draft Long Term Plan of both Councils (2021-2031). A summary of that work is provided in Table Two below. That forecast shows that to 2032, the Regional Council is forecasting to be underspent by \$7,920,000 against the variation to the Deed that was made in 2014 and the District Council overspent by at least \$11,603,000 against that 2014 variation.

**Table Two** – Forecast and Expenditure against Original Deed (2005) and Variation (2014)

	Forecast MFE Funding Required to June 2032	Forecast Expenditure to 30/06/2032	Actual Expenditure to 30/06/2020	Forecast Spend Variation Against Deed (2014)	Forecast Spend Variation Against Deed (2005)
RLC	\$40,837,500	\$81,675,000	\$65,136,000	\$15,103,500	\$8,337,500
BOPRC	\$38,543,420	\$77,086,840	\$33,563,552	-\$7,920,580	-\$1,256,580
MFE	\$79,380,920				

The forecasted underspend by the Regional Council is largely a result of savings made in: the administration of the Incentives Scheme, alum dosing on Rotorua and Rotoehu and weed harvesting in Rotoehu. The forecasted variance by the Rotorua Lakes Council is driven by anticipated costs associated with reticulating Lake Rotoiti. The cost drivers are varied but predominantly have been led by: construction inflation, higher costs to meet consent conditions not known in 2015, improving access to the leased land at Haumingi 9B3B site, provision of higher quality pretreatment systems to address cultural impacts, additional security of installation for pretreatment systems on 180 sites where the systems must be installed below the water table and special legal processes to secure consents to install infrastructure on Maori land with multiple owners.

The recommended transfer of underspends back to the Rotorua Lakes Council (effectively reversing the changes to Schedule 2 of the Deed in 2014) would not prevent the Regional Council delivering its Deed funded work programme responsibilities including: the Lake Rotorua Incentives Scheme; further Advice and Support for Landowners affected by Plan Change 10; and engineering solutions in the Lake Rotorua catchment.

However, even with the reversal of the 2014 Deed changes, as proposed, Rotorua Lakes Council still faces a forecast overspend of \$8,337,500 to complete the Rotoiti reticulation project and the Council will also need to find additional funds to provide its 50% contribution to the additional Crown funds, in accordance with the Deed of Funding.

The Rotorua Lakes Council has yet to make a decision on how it proposes to fund this additional cost. Based on its current funding plan for the Scheme the Council will consider, as part of its Long term Plan deliberations options which may include:

- Staying with its current funding plan requiring local property owners to pay an increased net capital contribution compared to the initial estimate, or
- Make a contribution towards the costs of reticulation for community facilities such as Marae, sports club, schools etc, or
- Increasing its financial assistance from the current \$1500 per property, or
- Debt funding some part of the increased costs, or



- A combination of the above options.

As a result of the analysis above, Recommendation One of this paper is that Strategy Group approve a reversion back to the total funding allocations for each Council as per the original 2005 Deed. That is; \$32.5 million for Rotorua Lakes Council and \$39.8 million for Bay of Plenty Regional Council. Note that this will mean the total spend of each Council under the Deed of Funding varies to those set out in Schedule 2 of the current Funding Deed but the total Crown spend remains the same. This change will help fund the Lake Rotoiti reticulation project. It is noted that this will require a Variation to Schedule 2 of the Deed and the Ministry for the Environment will advise on the process for this.

### 3. **Review of Deed Funding in Respect of Inflation (Recommendation Two)**

The Deed has total funding contributed by the Crown remaining static over its 25 year life at approximately \$72 million. There are no terms within the Funding Deed that enable this contribution to be adjusted to address inflation. As a result, the increased costs of construction over the life of the Deed are currently, by default, borne exclusively by council funding sources. A preliminary assessment regarding inflation trends indicates that the CGPI<sup>2</sup> average annual inflationary changes from 2005 to Q12 2020 across these three classes is around 2.4%. Applying an annual 2.4% inflation over 15 years (2020-2005) on the \$32 million allocated to Rotorua Lakes Council under the original Deed of Funding (which is all allocated to sewerage reticulation) puts the inflation adjusted required funding at ~\$45.6m ( $32m \times (1+0.024)^{15}$ ).

Mr Stavros Michael has advised that original estimates for the cost of the Rotoiti scheme in 2015 were \$35 million with a +/-30% uncertainty margin due to the proposal to utilise on site pre-treatment systems that was not encountered in earlier schemes and the unique nature of Rotoiti/Rotoma area. Based on the recent tenders it is highly likely that costs will be well above the 2015 estimate of \$35 million, but may potentially lie within the +30% margin.

Costs over and above those available in the Deed will need to be found from local funding sources (including those to meet the 50% local share requirement).

It is clear that the rising costs of construction and regulatory compliance in terms of completing large-scale construction projects like this one are not covered by the current Deed of Funding.

Therefore, it is considered highly appropriate to review the Crown’s contribution to the Deed in line with inflation trends. This is requested in Recommendation Two of this paper.

### 4. **Reticulation of Lake Rotoehu/Ngamotu settlement (Recommendation Three)**

Reticulation at Lake Rotoehu has clear justification in terms of delivering on the objectives of the Programme. Sewerage reticulation was not a key deliverable for water quality improvement on Lake Rotoehu in the original Action Plan for the Lake. However, a workshop of the Water Quality Technical Advisory Group and Regional

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<sup>2</sup> Information from Statistics NZ for the classes covering Civil Construction, Land Improvements and PPE as a basis for most aligned inflation classes.

Council staff was convened in 2018 to establish actions required to address continuing poor water quality on Lake Rotoehu. That workshop resulted in a number of actions to address the matter, including changes to the alum dosing regime on the lake.

An exhaustive list of those actions is not provided here but another key action was to pursue sewerage reticulation, the minutes recorded that *“This meeting considers that reticulation of lakeside communities for better treatment of sewage nutrients must be a standard recommendation and that it has other benefits beyond nutrient reduction”*.

The rationale for delivering reticulation at Lake Rotoehu is a logical deliverable for water quality improvement on one of the four priority Deed funded lakes within the Programme, which continues to face complex water quality challenges. It is estimated that approximately \$6 million dollars will be required to establish a sewerage reticulation network for Lake Rotoehu and Ngamotu settlements that will complete the Rotoiti/Rotoma/Rotoehu catchment wastewater reticulation process.

The resource consent for the Rototi/Rotoma scheme allows for these lakeside properties at Lake Rotoehu and Ngamotu to connect to the new Rotoiti wastewater treatment plant, for treatment and disposal. The conditions of this consent require that, as for the recently reticulated properties at Lake Rotoiti and Rotoma, there is some form of effluent pre-treatment provided for each property - prior to the waste being transferred.

Recommendation three of this paper is that the Programme partners make a formal request to the Crown for additional funding to support this project as part of the Lakes Programme, noting that the Rotorua Lakes Council has reserved some \$2.0 m from the 3 Waters Reform funding to support this proposal (subject to Deed Funding support).

These reserved 3 Waters Reform funds can be used to commence detailed design work enabling the proposed reticulation to connect to the Rotoiti/Rotoma scheme (as allowed by the consent) soon in this Financial Year, provided a commitment to secure additional Deed funding is also made.



Doc No: RDC-1095933

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Rotorua Te Arawa Lakes Strategy Group  
12 February 2021

File No: 01-63-097-5

ROTORUA LAKES COUNCIL

Chairperson and Members  
ROTORUA TE ARAWA LAKES STRATEGY GROUP

**UPDATE REPORT FROM ROTORUA LAKES COUNCIL**

**Report prepared by:** Jean-Paul Gaston, Group Manager Strategy and Partnerships  
**Report approved by:** Geoff Williams, Chief Executive

**1. PURPOSE**

To provide a short update on Rotorua Lakes Council (RLC) activity that relates to lake water quality.

**2. EXECUTIVE SUMMARY**

*RLC activity currently underway that impacts the Lakes Programme includes:*

- *Wastewater treatment and stormwater projects*
- *Planning Policy*

This report provides a brief update against each of these areas.

**3. RECOMMENDATIONS:**

- 1. That the report 'Update Report from Rotorua Lakes Council' be received.**

**4. WASTEWATER TREATMENT AND STORMWATER PROJECTS**

**Rotomā / Rotoiti Sewerage Scheme**

- The treatment plant is fully operational along with the reticulation in the Rotoma area and this component of the scheme fully operational.
- The reticulation (pipework) in the Rotoiti area is complete within the public road corridor. Part of the reticulation is on a number of parcels of Māori land held under various entities, some with no registered owners. RLC is working through gaining consents for this land, some of which will require hearings at the Māori Land Court. At this stage this is not impacting on commissioning of the Rotoiti component of the scheme.
- Tenders for on-site systems at Rotoiti have been received and are being evaluated. It is intended to get community views on recommended systems along with endorsement from the Iwi Wastewater Liaison Group prior to making a recommendation to Council for award of a contract. The contract is for supply, installation and operation of the on-site units for a period of 15 years. The April round of meetings of RLC is being targeted for contract approval. Following approval installation and commissioning of each household can commence. Some 450 residential and commercial properties are programmed to be connected to the scheme.