



Chairman's Report

For the Year Ended 30th June 2011



Introduction

The Lake Taupo Protection Trust was formed and became operative at the time of establishment of the Lake Taupo Protection Project on 9th February 2007. The Trust's role is to protect Lake Taupo's water quality by reducing manageable Nitrogen leaching into the Lake by 20% which was predicted to be approximately 153 tons annually. This figure is currently being revised following more comprehensive Nitrogen data becoming available.

To achieve the 20% Nitrogen reduction the Trust has access to and administers an \$81.5 million (incl GST) public fund until 2018 which has been set up by Taupo District Council, Waikato Regional Council, and Central Government through the Ministry of the Environment. These monies are provided on an annual basis at a rate of approximately \$6 m per year.

The ability of the Trust to achieve any increased Nitrogen reduction within existing funding constraints will be subject to investigation and review throughout the next financial year.

Variation 5 to the Waikato Regional Plan which sets up the legal basis for allocating nitrogen to farms in the catchment has only at the end of this financial year been approved through the Environment Court and Waikato Regional Council. This delay has at times made achieving the Trust work difficult as some parties in the catchment have chosen to delay developing plans to control their Nitrogen emissions until the legislation is finalised. In that regard we look forward to having new discussions with these parties as they review their opportunities and requirements under the Variation over the coming new financial year.

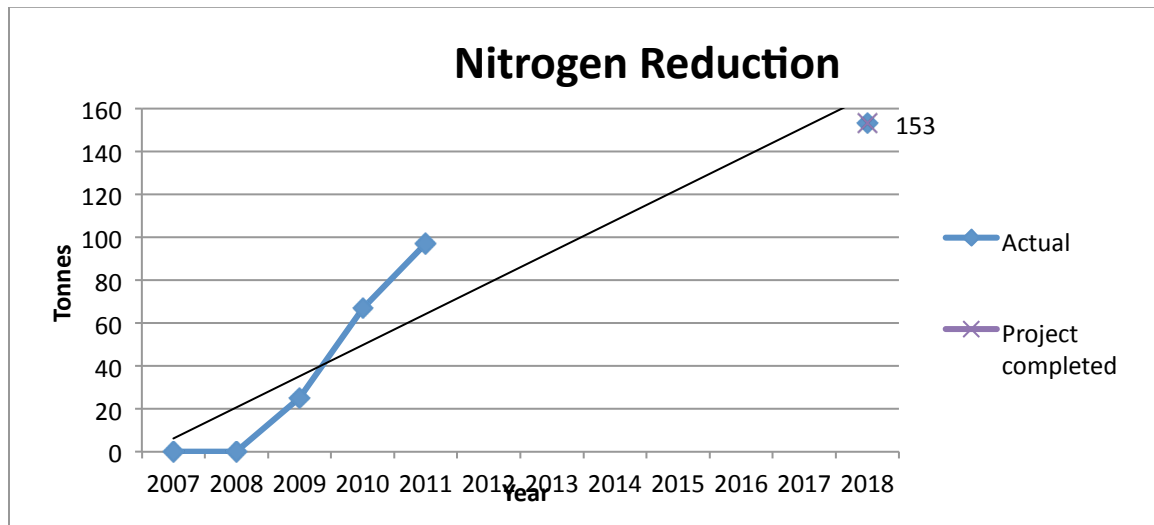
Despite that this year has seen a number of very significant agreements with landowners for nitrogen reductions and in particular I would like to highlight the continued involvement and interest from Ngati Tuwharetoa entities. Agreements with these parties have in part involved the transfer of areas of their land holdings from pasture to forestry with income streams coming from carbon offsetting under the Emission Trading legislation.

Nitrogen reduction agreements have also been entered into with farmers who have reduced their Nitrogen leaching by altering and amending their farm management plans. These "Nitrogen Management Plans" form part of the requirement to achieve a Resource Consent however they also highlight how farmers can reduce nitrogen by changing stocking policies to ones which may involve different stock types or reduction in stock numbers. In addition to reducing Nitrogen it has been reported that these changes have also reduced input costs and have therefore made the farm more efficient and profitable.

This year the Joint Committee overseeing the project commissioned an external review of progress to date and the Trust were pleased to note that one of the major findings was that the project is progressing well and that the management and governance is working effectively. Certainly from the Chairman's position I am delighted to be working with a very professional and effective Board and with a Joint Committee Governance

group who understands the challenges and are there to support as well as monitor performance.

This review also highlighted the difficulty of achieving additional Nitrogen reductions as the perceived opportunities of land change decreases. To help address this the Trust intends to initiate an 'engagement exercise' with stakeholders and the wider business and local community to seek new partnerships and new ideas.



As can be seen from the above chart the Trust is ahead of target towards its present target of 153 tons. This progress has been supported by the opportunity arising from the Emission Trading legislation and also due to the relatively low returns for sheep, beef, and wool making agreements with the Trust more financially attractive. This trend of low produce returns has reversed in the latter part of this financial year and the Trust has noticed a decline in the number of parties wishing to investigate Nitrogen reduction agreements. In addition the Trust operates in an open trading market for Nitrogen and competes with other parties for available Nitrogen.

Despite these challenges and in conclusion I can report that the Trust continues to be in good heart and is ready for the challenges involved in completing one of New Zealand's largest environmental projects.

Nature and Scope of Activities

➤ Fund Management

The Trust's Treasury Policy (incorporating Liability Management and Investment Policies) guides the Trust investments and financial transactions and was reviewed and adopted by the Trust in May 2011. The Trust continues to review the opportunity to raise debt as allowed for in the Trust Deed however at this time this is not a preferred option.

In my last annual report I highlighted the Trust's difficulty of entering into long term contracts when the Trust Deed allowed for the Crown to exit with one year's notice. This has been addressed by the funding partners this year and saw both the Waikato

Regional Council and Taupo District Council enter into more formal contractual agreements to secure funding while the Crown has agreed to a multi-year funding model for 5 years. These new agreements allow the Trust to enter into financial agreements over time with more certainty.

The Trust has in place a projected cash flow analysis which indicates projected income, operating costs, and potential call on funds until 2018. This document allows Trustees to both measure progress but also to support their financial management governance role.

Future Direction

➤ **Strategic Plan**

The Trust continues to use this plan as a basis for the work to be completed by staff and for Trust governance of the project. Progress is tracked monthly through reports completed to the Trust Board and quarterly reports to the Joint Committee.

It is intended that the Strategic Plan will be reviewed in 2012 on completion of the 'engagement exercise'.

Administration

➤ **Report six monthly to the Joint Committee on progress both financial and qualitative**

The Trust fulfilled its 6-monthly reporting to the Joint Committee and complied with the reporting timeframes.

➤ **Statement of Intent (SOI)**

The Trust undertook the SOI process in accordance with the requirements of Clause 14 of the Trust Deed. The draft SOI for the 20011/12 year was presented to the Joint Committee at their March 2011 meeting. The final SOI was approved by the Trust and endorsed in June 2011 by the Joint Committee.

➤ **Meetings**

The Lake Taupo Protection Trust held monthly meetings throughout the year and now operates with only one standing Committee being the Executive and Audit Committee. This change was instituted to reflect the changes in the Trust operation and after advice from the Auditor General's office on best practice. John Kneebone continued as elected Chairperson with Sue Yerex being elected as Deputy Chairperson to replace the previous deputy Chair, Trustee Jerry Rickman.

➤ **Service Level Agreement**

The Lake Taupo Protection Trust continued with one Service Level Agreement (SLA) with Environment Waikato for the provision of benchmarking services. Reports to the Trust on a monthly basis occurred keeping Trustees informed of SLA performance

against targets. We have retained the ongoing service providers for accounting and legal services.

Ratio of Consolidated Shareholder Funds

Because of the nature of the Trust's business there was no specific target ratio of consolidated shareholders' funds to total assets.

Accounting Policies

Our operations which involve purchasing Nitrogen reductions over time and of allowing nitrogen reductions to take place over that time has had specialist accounting advice to ensure that we meet the requirements of GAAP and NZ IFRS.

Statement of Intent (SOI) Performance Targets

Organisational Performance Measures for 2010/2011 Financial Year

Actions	Measures	Performance against Target
Have completed at least three agreements with Ngati Tuwharetoa Entities.	Three agreements achieved by June 2011.	Three agreements completed with Ngati Tuwharetoa entities.
Put in place at least four Nitrogen/Carbon agreements with landowners.	Agreements in place by 30 th June 2011	Two agreements achieved as more emphasis from farmers on Nitrogen Management Plan reductions.
Trust objectives achieved by ensuring that all Nitrogen reduction agreements entered into have Nitrogen reductions over 999-year time period and have current resource consents.	All agreements have requirements in place.	All agreements have resource consent and 999-year requirements in place.
Operate the Trust to achieve a further reduction of 30 tons of nitrogen to an approximate total of 80 tons.	An overall amount of 80 tons of nitrogen reduced by 30 th June 2011.	97 tons achieved as at balance date.
Put in place a projected cash flow budget until 2018 indicating potential agreements and potential funding commitments.	Cash flow projection in place and available to Trustees and Joint Committee members before 30 th August 2010.	Cash flow projection in place; made available at Trust Board meetings and presented to the September 2010 meeting of the Joint Committee.
Environment Waikato to progress with benchmarking of farms within the Lake Taupo catchment in accordance with the agreements outlined between the parties as per the 2010/11 Service Level Agreement.	Benchmarking of all farms within the Lake Taupo catchment are completed on or before 30 June 2011 as agreed in the 2010/11 Service Level Agreement.	97% of benchmarking completed. The delay with the Environment Court signing off on RPV5 on 17 th June 2011 has affected the completion of the benchmarking process; now to be completed during the 2011/12 year.

Estimate of Distribution to Shareholders

- Other than agreed services there were no distributions to Funding Bodies or beneficiaries and none are envisaged.

John T Kneebone
Chairman
Lake Taupo Protection Trust