



Cabinet

Minute of Decision

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Minister for Land Information

A Sustainable Future for the South Island High Country: Pastoral Leases Valuation Reviews: Report Back

On 9 October 2006, following reference from the Cabinet Business Committee, Cabinet:

Background

- 1 **noted** that pastoral leases were established under the Land Act 1948, which intended to give leaseholders greater incentive to look after the land through granting them secure rights to the land (perpetual right of renewal), exclusive occupation and the right to use the land for a limited purpose, namely pastoral farming;
- 2 **noted** that in recent years the market value of certain land in the high country perceived to possess desirable characteristics (i.e. amenity values, such as access to attractive land or views) has appreciated substantially, which has led to increased value being derived by lessees from the sale of pastoral leases;
- 3 **noted** that concerns have been raised that the Crown is receiving rental from lessees at a level that does not fairly reflect the value of the land and that the Crown when participating in tenure reviews is forced to pay a premium for land returned to full Crown ownership because the Crown's interest in the land is undervalued and the lessee's interest overvalued;
- 4 **noted** that on 14 February 2005 Cabinet invited the Minister for Land Information to report back on the implications of introducing market rents for pastoral leases when rents are reviewed every 11 years and the valuation methodology used in valuing lessor and lessee interests in tenure review [POL Min (05) 2/9, CBC Memo (06) 1/1 and CBC Memo (06) 5/2];
- 5 **noted** that in July 2005 LINZ engaged a panel of senior valuers (the Valuers) to undertake the review of pastoral lease rental and tenure review valuation methodologies and outcomes associated with pastoral lands;

Valuers' Report

- 6 **noted** that the Valuers considered that:

- 6.1 rent should not be paid for lessees' rights of exclusive access to amenity values associated with the land;
- 6.2 because the Land Act requires the land to be valued as if there were no restrictions on use, the legislation does not lead to appropriate market rentals for pastoral leases;
- 7 **noted** that the Valuers' approach does not strictly comply with the Land Act methodology;
- 8 **noted** that the Valuers recommended that the:
 - 8.1 rental valuation for pastoral leases be based on original stock unit carrying capacity;
 - 8.2 legislation be amended to ensure tenure review valuations reflect current practice;
- 9 **noted** that the Valuers also recommended that:
 - 9.1 transaction prices for tenure review be made publicly available;
 - 9.2 a group, similar to the former Land Settlement Board, be established to improve relationships between the Crown, lessees and the public;

Preliminary Government Response to the Report

- 10 **noted** that a preliminary government response to the Valuers' Report has been prepared, the key points being that:
 - 10.1 the government recognises the value of the high country to the economy of New Zealand and the contribution farmers make to sustainable management of the high country;
 - 10.2 a proper interpretation of s 131 of the Land Act requires amenity values to be retained in the Land Exclusive of Improvements (LEI) value, and does not allow for the LEI to be adjusted in order to achieve an affordable rent (e.g. where use is solely pastoral);
 - 10.3 there are significant economic and financial implications for the Crown and lessees, in that this approach may lead to increased rents that may exceed the income generated solely from pastoral use;
 - 10.4 for the Crown to reduce rents without lessees giving up some of their rights would in effect be a capital transfer of value from the Crown (on behalf of taxpayers) to lessees for no value;
 - 10.5 it is desirable to reach an outcome which is fair and reasonable for the Crown and lessees and durable;
 - 10.6 the Crown will consult with lessees and stakeholders to consider the implications of the Response for lessees and the achievement of the government's high country objectives;

- 11 **invited** the Minister for Land Information to report to the Cabinet Policy Committee in March 2007 on a policy approach which is fair and reasonable for both parties, and durable;

Release of Report and Response

- 12 **noted** that the Minister for Land Information proposes to release the Valuers' Report and the Preliminary Government Response (subject to minor editorial changes) attached to the paper under CAB (06) 415, and the Cabinet paper under CAB (06) 415, to enable consultation to be undertaken;

Potential Impact on Lessees

- 13 **agreed** that officials consult with lessees on the implications of the Preliminary Government Response and options to address these implications;
- 14 **noted** that such options may include:
- 14.1 the Crown and lessees jointly seeking a judicial interpretation on valuation methodology;
 - 14.2 deferring some rent until sale;
 - 14.3 remitting rent in return for additional sustainable management contributions or improved public access;
 - 14.4 adjusting restrictions on land use;
 - 14.5 grandparenting the existing rental process for genuine pastoral farmers;

Potential Impact on Achieving the Government's High Country Objectives

- 15 **noted** that the strict application of the s 131 process as proposed in the Preliminary Government Response may cause a tension between three of the government objectives for the South Island high country, namely:
- 15.1 promote the management of the Crown's high country land in a way that is ecologically sustainable;
 - 15.2 foster sustainability of communities, infrastructure and economic growth and the contribution of the high country to the economy of New Zealand;
 - 15.3 obtain a fair financial return to the Crown on its high country land assets;

Potential Impact on Tenure Review

- 16 **noted** that the strict application of the s 131 process as proposed in the Preliminary Government Response may cause the market value of properties for which higher rents are payable to fall, and thus alter lessees' incentives for participating in tenure review;

Next steps

- 17 **agreed** that officials (LINZ, MAF, DOC):

- 17.1 brief the High Country Accord and the High Country Committee of Federated Farmers immediately prior to the release of the Valuers' Report, the Preliminary Government Response and the Cabinet paper under CAB (06) 415;
- 17.2 brief environmental NGOs on the content of the Valuers' Report and the Preliminary Government Response following the briefing of lessee representative groups;
- 17.3 undertake a consultation process in October and November 2006 on the Valuers' Report and the Preliminary Government Response;
- 17.4 report to the Minister for Land Information in March 2007 with advice on a way forward;

Publicity

- 18 **noted** the sensitive nature of this subject, and that the release of the Report and the Preliminary Government Response is likely to generate significant debate and concern for lessees, and will be managed through direct consultation with them;
- 19 **noted** that the Minister for Land Information indicates that consultation is not required with the government caucuses or other parliamentary parties.

Secretary of the Cabinet

Reference: CAB (06) 415, CBC Min (06) 17/30