

SENSITIVE

Chair
Cabinet

**A SUSTAINABLE FUTURE FOR THE SOUTH ISLAND HIGH COUNTRY:
PASTORAL LEASES VALUATION REVIEWS: REPORT BACK**

Proposal

- 1 This paper discusses the outcome for the Crown and high country farmers of an Interim Report: High Country Pastoral Leases Review (“Report”), and a preliminary government response (“Response”). The Report and Response have significant implications for both parties. It is proposed that the Crown (as lessor) consult with high country farmers to review options that recognise the value of sustainable and economically viable high country farming and reach an outcome that is fair and reasonable for both parties and durable.

Executive summary

- 2 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, CAB Min (05) 2/9, CBC Memo (06) 1/1, and CBC Memo (06) 5/2 refer].
- 3 The Report, by a panel of experienced valuers, considered that there was no requirement for lessees to pay rental on amenity values.¹ They considered that the current methodology achieved “fair” outcomes for lessees by importing an “affordability” consideration into the calculation. The Report also noted that this approach may not strictly comply with the current legislation. The Government sought clarification on the approach taken by the Valuers.
- 4 The clarification process established that, for a valuation to comply with the Land Act 1948 (“Land Act”), amenity values must be included. Consequently, given the current market demand for land with high amenity values, in some cases rentals may exceed what is affordable based on income generated from pastoral use alone.
- 5 The Report and Response have significant financial and economic implications for high country farmers and the Crown. Also, tensions are highlighted between the government’s high country objectives of a fair financial return to the Crown on its high country land assets, and sustainability of communities, infrastructure and economic growth and the contribution of the high country to the economy of New Zealand.

¹ “Amenity values” include inherent and locational values, and natural characteristics.

- 6 The Government recognises the contribution of the high country to the economy of New Zealand, encourages sustainable high country farming, and is mindful of the potential impact of increased costs on the viability of the merino industry.
- 7 It is proposed to consult with lessees and key stakeholders on the implications of the Report and Response and options for addressing these implications. The Minister for Land Information proposes to report to Cabinet Policy Committee in March 2007 on the outcome of that consultation. The objective is to reach a solution which is fair and reasonable for both parties and durable.
- 8 Approval is also sought to release the Report, and the Response (which incorporates the essence of the legislative clarification) and this Cabinet paper.

Background

- 9 The Crown owns 2 million hectares of high country land, located from Marlborough to Southland, which is leased or licensed. Pastoral leases (of which there are now 248 as at September 2006²) were established under the Land Act, although land in the South Island high country has been licensed or leased since the 1850s. Much of the high country land is environmentally sensitive (i.e. prone to soil erosion, pest incursion and natural fire spread). The Land Act was drafted with the intent of giving leaseholders an incentive to manage environmental values in an appropriate manner (i.e. to act as a steward of the land). The Land Act granted lessees secure rights to the land (perpetual right of renewal), exclusive occupation of the land, and the right to use the land for a limited purpose, namely pastoral farming. The rent is set at 2.25% (2% if paid on time) of the land value exclusive of improvements (“LEI”).
- 10 The 2.25% rate of return on the Crown’s high country assets was considered in the 1982 Clayton Report (*Crown Pastoral Leases and Leases in Perpetuity: Report of the Committee of Inquiry*). The Clayton Report confirmed LEI as the most satisfactory basis for assessing rentals, and said that concessional rents perhaps conceived as helpful to encourage development were often capitalised on sale, and their intended objective negated. The report said that rents should be economic and not concessional. The Committee did not think that concessional rents were intended by the framers of the Land Act, and noted that, according to some statistics, the rentals of pastoral leases in 1950 averaged 4.2% of LEI. The Committee thought that the rate set in the 1979 Land Amendment Act was “more than generous to lessees”.³
- 11 In the 1990s, the Government commenced a process of tenure review as a means of meeting both production and conservation objectives for the South Island high country. Tenure review is a voluntary process, which since 1998 has been carried out under the Crown Pastoral Land Act 1998 (“CPLA”). Tenure review:
 - a. enables land with significant inherent values to be protected through a range of measures from restoration of the land to full Crown ownership under Department of Conservation (“DOC”) administration to protective covenants;

² Excluding those for which a substantive proposal has been accepted or implemented in tenure review.

³ At para 2.89.

- b. enables leaseholders to gain freehold title of high country land (except in those cases where all the land is proposed for conservation); and
 - c. improves public access to the high country.
- 12 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. This has led to increased value being derived by lessees from the sale of pastoral leases.
- 13 Concerns have been raised publicly by some stakeholders (notably environmental NGOs) that the Crown is receiving rental from lessees at a level that does not fairly reflect the value of the land or a lessee's rights under a pastoral lease. This view asserts that the right of exclusive access a lessee has to any amenity values is undervalued or ignored. Consequently, these stakeholders believe that the Crown, when participating in tenure review, 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. In other words, there are concerns that lessees are unfairly benefiting from both concessionary rents and capitalising the benefits of lower than proper rents when parts of the leases are transferred back to the Crown pursuant to tenure review.
- 14 The Government recognises the contribution of the high country to the economy of New Zealand, encourages sustainable high country farming, and is mindful of the potential impact of increased costs on the viability of the merino industry. The Government is also committed to achieving its objectives for the South Island high country.
- 15 In 2000, LINZ commissioned and received a report on valuation methodology for pastoral lease valuation from Telfer Young. In 2003, LINZ commissioned and received a tenure review valuation review from DTZ New Zealand Ltd. However, concerns have persisted about valuation methodology for pastoral lease land.

The Review

- 16 In July 2005 a panel of senior valuers ("Valuers") was commissioned to review pastoral lease rental and tenure review valuation methodologies and outcomes associated with pastoral lands. In the context of the Government's objectives for the South Island high country (notably a fair financial return to the Crown on its high country assets), the Valuers were asked to report on whether the:
- 1. current methodology for valuing lessor and lessee interests in tenure review is delivering accurate and fair outcomes and recommend changes to the methodology (if appropriate) to better meet those outcomes; and
 - 2. rents set by legislation accurately and fairly reflect open market levels and the options available if changes need to be made to ensure rent is set at a market level including:
 - (a) an assessment of the implications of introducing market rents for pastoral leases; and

- (b) consideration of the extent to which charges for recreation permits and easements contribute towards the objective of obtaining a fair financial return to the Crown on its high country land assets.

17 A draft Report was provided to LINZ for comment in late 2005 and a further version of the Report was provided to LINZ in February 2006 (a copy of which is annexed to this paper as Attachment 1, and is titled “Interim Report” and dated December 2005).

18

19 The findings and recommendations of both the Report and the Response and the basis for the differences between them are discussed. The different approaches have important implications for the Crown and the lessees and resolution will require consultation and careful consideration of implications and options.

Report

20 The Report is summarised in the following paragraphs.

21 A Crown pastoral lease differs from a typical open market rural lease in that it has:

- a. its rental based on a prescribed percentage [2.25%, or 2% if paid on time] of the value of the land exclusive of improvements (“LEI Value”);
- b. restrictive covenants precluding the lessee realising any potential for subdivision for building purposes or for any commercial or industrial use (CPLA, s 6); and
- c. restrictive land use controls that require consent to be obtained from the lessor for almost all land management activities (CPLA, ss 15-18).

22 Lessees pay a rental for the exclusive right to pasturage, but in the opinion of the Valuers there is no requirement in the CPLA or the Land Act for any rental to be paid for the right of exclusive access to other desirable features associated with the land.

23 Moreover, according to the Valuers, the Crown in effect “gave away” the amenity values in the land, or at least any potential to realise their value, when it granted the lessees perpetually renewable leases and exclusive access to those values. As a result, the Valuers consider that those rights or interests in the land are perceived and recognised as being “owned” by lessees. They assert the assessment of a “market rental” for a pastoral lease cannot include any value associated with a premium that a purchaser would pay for the “X” factor protected by the perpetual occupation of that lease. By implication, the rental value (the LEI Value) should not include any value associated with other desirable features or amenity values.

- 24 According to the Valuers, because the process required under the existing legislative framework 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. The Valuers say that the CPLA and the Land Act should require the lease rental to be set on the basis of a restricted use right only. By incorporating in the LEI Value the value the market attributes to other desirable features, a rent is produced that exceeds the value of the use of the pasturage and may be higher than the gross income generated from pastoral farming. In this sense, the Valuers consider that the resulting rent is higher than a “fair” financial return to the Crown.
- 25 As a result, in practice valuers employed by LINZ for the purpose of determining rent for pastoral leases:
- a. make their valuation assessments exclusive of the market premium for amenity values (which fails to comply with the Land Act, s 131); or
 - b. attempt to provide for fairness and equity between lessor and lessee by adjusting the LEI Value using affordability considerations.
- 26 Thus, in the opinion of the Valuers the current valuation methodology achieves “fair” outcomes for lessees, although it may not strictly comply with relevant legislation.
- 27 In respect of tenure review, the Valuers conclude that while there is a lack of transactional transparency, along with a lack of understanding of valuation methodology and process among some members of the public, the methodology currently used for tenure review valuations delivers “fair” outcomes.
- 28 The Valuers recommended that rental valuation for pastoral leases be based on stock unit carrying capacity. This, according to the Valuers, is appropriate because it takes amenity values out of the equation, enables the rent to exclude lessees' improvements and is tied to a market-based mechanism for pasturage.
- 29 The Valuers recommended that the legislation be amended to ensure tenure review valuations reflect current practice.
- 30 In addition, the Valuers considered that transaction prices for tenure review should be made publicly available and recommended establishing a group, similar to the former Land Settlement Board, to improve the relationship between the Crown, lessees and the public.

Clarification of the legislative framework

- 31 After consideration of the Report and its finding that current valuation practice may not strictly comply with relevant legislation, officials clarified the legislative framework for the setting of pastoral lease rents,
- 32 Officials concluded, in essence, that affordability of rents is not a factor central to the rent setting process. Rather, several provisions in the Land Act seek to achieve fairness for the lessee. Values must be ascertained in a way that is equitable between lessor and lessee (s 131(1) (ii)). Following the valuation process, a lessee has several choices, including accepting the rental valuation as notified or requiring that the values

ascertained under s 131(1) are determined by the Land Valuation Tribunal (“LVT”) (s 132).

- 33 Should any question of affordability then arise, it is to be separately addressed under s 138, which provides that a lessee may approach the Crown for rent to be remitted, postponed or reduced. This and other options for rental relief may also be considered and further discussion of these is found below under *Potential impact on lessees*.
- 34 The amenity values of pastoral lease land are owned by the Crown but occupied and enjoyed by the lessee, and normally increase the market value of the land. Accordingly, these attributes must be included in the valuation upon which rent is calculated.
- 35 The CPLA requires that the rental value ascertained under s 131 of the Land Act exclude any potential value that the land may have for subdivision for building purposes, or for commercial or industrial use. The omission of amenity values from this provision could be construed as requiring that they are included in the ascertainment of a rental value.

Preliminary government Response

- 36 Issues raised by the Valuers and the subsequent consideration of the legislative framework have been drawn together in a preliminary government Response to the Report (Attachment 2).
- 37 The legislation, if applied as proposed in the Response, which is summarised in this section, provides a workable framework for valuing pastoral lease land. The Valuers provided advice as if working from a “blank canvas” and, in effect, made recommendations as to what they consider the legislative framework should provide to reflect the current valuation practice.
- 38 It is apparent that including amenity values in valuations for rental purposes, may, in some cases, result in rentals which are not financially viable for farmers based solely on income generated from pastoral use of the land. On the other hand, if the Crown were to reduce rentals without any corresponding mechanisms, the result would be a capital transfer from the Crown (on behalf of taxpayers) to the lessees. The consequences of this and options for responding to affordability concerns are discussed below.
- 39 The Crown must ensure that its valuations comply with the law, yet it is not intended that rents be unaffordable for lessees, notwithstanding this may be an unavoidable outcome for those farmers whose income is generated from pastoral use alone.
- 40 Section 131 of the Land Act requires amenity values to be included in the rental valuation calculation. The Crown owns the leasehold land but the lessee owns the improvements and has exclusive occupation rights and the right to farm subject to certain restrictions. These exclusive occupation rights prevent others from accessing any amenity values without lessee approval, and it is this exclusive access right that is being increasingly sought after by the market.
- 41 The rental stream from a pastoral lease is a major component of the value of the Crown's interest for the purpose of tenure review. Thus, ensuring amenity values are included in valuations when setting rents will result in proper values being reached in the tenure review process. Failure to use this approach will result in the Crown's

interest in pastoral land being undervalued, and the lessee's interest in pastoral land being overvalued during the tenure review process.

- 42 There is merit in the argument for more transparency in transaction costs. Transaction prices are now supplied on request. Further consideration is needed, however, about how this data could best be made publicly available.
- 43 It is not considered that a group such as the former Land Settlement Board is necessary at this stage, as there are existing means for the Crown and stakeholders to exchange views.

Potential impact on lessees

- 44 As noted earlier, the two streams of advice have significant economic and financial implications for the Crown and farmers. Increased rents may have wide ranging and uncertain effects on lessees, high country farming and the merino industry.
- 45 Application of a methodology that complies with the Land Act may result in rents that lessees find unaffordable based on income generated from pastoral use alone. Unaffordable rent would serve neither the Crown as landowner nor lessees as this could place sustainable land management and the pastoral farming industry at risk.
- 46 It is proposed to consult directly with lessees to understand better the implications and potential mechanisms for ameliorating the rental burden on lessees. Consultation is desirable if a solution is to be obtained which is fair and reasonable for both parties and durable.
- 47 Some lessees derive an income solely from the pastoral farming activities undertaken on their pastoral lease land. In other cases, pastoral farming is combined with other activities made available through concessions granted by the Commissioner of Crown Lands ("CCL"). And, in yet other cases, lessees hold their land for lifestyle reasons, and the pastoral farming activities undertaken on their lease is not relied on for financial viability. Rent increases may impact, therefore, on the ability for some farmers to make a living from the land and may not impact on others. What is unaffordable for some (e.g. because of a high price paid for the land, the carrying of high debt, or the derival of income only from pastoralism) may be affordable for others.
- 48 MAF advises that based on the average rental figure in the Report (\$10.42 per stock unit for reviews between 2002 and 2006), it is estimated that the typical high country property would struggle to generate sufficient funds to cover this cost. MAF's farm monitoring results show that South Island merino properties generated sufficient returns in only two of the past seven years to support this level of rental payment (2000 and 2001). The modelling by MAF shows that production from these properties has remained relatively static over recent years, while input costs have risen and commodity prices (wool and lamb) are now at levels last recorded in the late 1990s.

Option for judicial determination

- 49 The Crown and lessees could jointly agree to seek a judicial determination on the "correct" methodology to be applied under the Land Act. It is likely that lessees will seek legal advice and may be sufficiently motivated to seek judicial determination if the

Crown applies the valuation methodology in the Response. It might be less expensive, faster and less acrimonious if both parties agreed to seek a High Court determination.

Other options

- 50 Principles that need to be applied when considering policy options in this context include but are not limited to:
- a. establishing affordability criteria, e.g. when affordability is a relevant consideration;
 - b. consistency of treatment between lessees;
 - c. achieving the Government's South Island high country objectives especially those relating to a fair return on Crown assets, sustainable management of high country land, public access, and sustainability of communities;
 - d. value transfer considerations; and
 - e. actions by lessees relevant for rental reduction, e.g. allowing public access in return for a rental reduction.
- 51 The following options are described in a broad sense, and further work is needed to determine their feasibility and implications, including whether legislation may be necessary to give effect to them.

Deferral ("claw-back") of rental payment

- 52 This option would allow deferring some of the new rent until the lessee is capable of paying, which may be on sale of the lease. Operational and policy matters requiring further analysis include the deferral in each case, inflationary effects on the deferred payment, the correct formula for capitalisation of deferment on sale and whether inter-family transactions are considered sales.
- 53 A subsidiary option is to defer or remit rent where the lessee contributes to the sustainable management of the high country and the environment beyond the "good husbandry" requirements of the lease. Examples of qualifying projects and activities might include some pest destruction work, weed eradication, erosion control, protection of high value heritage areas and improved public access to amenity values.

Legal separation of pastoral and amenity rights

- 54 This option would legally separate the right to pastoral occupation from amenity values. It would resolve the impact of amenity values on rentals, but matters relating to exclusive occupation being capitalised on sale would need to be considered.

Rent relief through s 138

- 55 Section 138 of the Land Act provides for remissions or postponements of rent. Within the Land Act, this is the appropriate area for consideration of the ability of lessees to pay the rents set under the s 131 framework.

- 56 Section 138 could be considered in respect of land perceived to possess amenity values. However, if it were used to reduce rents, there would be less incentive to enter tenure review for those properties most likely to possess conservation values.

Adjustment of restrictions on land use

- 57 Rent affordability could also be addressed by removing or relaxing the restrictions on lessees' land use, which effectively limit lessees' use of the land to pastoral farming and occupation (unless they have received consent for other activities such as hunting and tourism lodges). This would allow lessees to alter their use of the land in order to generate additional income. This approach would reduce Crown control and Resource Management Act 1991 processes would apply.

Grandparent the current process for existing lessees

- 58 This option involves ring fencing the existing rental process for existing lessees where there is genuine pastoral farming. This would create business certainty for existing lessees, encourage genuine farming and discourage sale for purely speculative reasons. New purchasers would be on notice that they would be subject to the methodology in the Response.

Potential impact on achievement of Government high country objectives

- 59 Pastoral lessees are bound by good husbandry requirements and need the CCL's consent for a range of land disturbance and development activities. Higher rents for pastoral leases may lead, however, to increased pressure for development and thus potential impact on the ecological values of the land. If lessees are unable to meet the higher rents, they may be forced to sell their pastoral leases. Willing buyers may purchase these leases for the amenity values rather than the farming operations. This could impact on local community sustainability and the contribution of the high country to the economy.
- 60 There is a potential tension between three of the Government high country objectives for the South Island high country, namely:
- a. promote the management of the Crown's high country land in a way that is ecologically sustainable;
 - b. foster sustainability of communities, infrastructure and economic growth and the contribution of the high country to the economy of New Zealand; and
 - c. obtain a fair financial return to the Crown on its high country land assets.

Potential impact on tenure review

- 61 The Response has implications for the tenure review process. All other factors being equal, the market value of properties for which higher rents are payable would likely fall on account of those higher rents. This fall would diminish the payment lessees could expect from the Crown for purchasing their interest in leases through the tenure review process.

- 62 Some lessees may enter into tenure review to pre-empt any fall in market values and any increase in rents (fear of rent increases is found in the Report to be a major driver of tenure review). Conversely, the Government could defer the tenure review programme until market values had fallen, although this would also delay the achievement of its high country objectives.

Current status of rent reviews

- 63 There are 24 rents due to be notified in September 2006 (on account of 11 year rent reviews). In addition, 20 rents are due to be notified in September 2007, 6 in March 2008 and a further 26 in September 2008. The approach to be taken to these rent reviews is explained in Attachment 3.

Next steps

- 64 This paper has highlighted complex legal and policy matters concerning the management of the South Island high country. The Crown, as a good lessor, should consult with its lessees on the implications of the advice it has received and possible ameliorating options. The objective is to reach a solution which is fair and reasonable for both parties and durable.
- 65 It is proposed that consultation occur with the following key steps:
- a. release the Report, the Response and this Cabinet paper. The Report and the Response to be sent to those lessees and other interested parties to whom the Review's terms of reference were sent, and to those interviewed by the Valuers. A media statement would also be issued;
 - b. officials to brief lessee representative groups (the High Country Accord and the High Country Committee of Federated Farmers) immediately prior to the release of the Report and Response;
 - c. immediately following the briefing of lessee representative groups, officials to brief environmental non-government organisations with an interest in the Report and Response;
 - d. following release of the Report and Response, invite submissions until 15 December 2006;
 - e. officials to meet with lessees and key stakeholders in October and November to discuss the implications of the Report and Response; and
 - f. officials to report back to me in March 2007 with advice on a way forward.

Consultation

- 66 The Treasury, the Department of Conservation, the Ministry of Agriculture and Forestry and the Department of the Prime Minister and Cabinet were consulted in preparing this paper.

Financial implications

67 There are no financial implications for decisions sought by this paper.

Legislative implications

68 There are no legislative implications for decisions sought by this paper.

Publicity

69 There is a high level of interest in pastoral lease land, especially as it relates to amenity values, from lessees, environmental and conservation NGOs and the public. The release of the Report and Response is likely to generate significant debate and concern from lessees. I propose that the Report, Response and this Cabinet paper be released together with an appropriate media release.

Further paper on lowland biodiversity and landscape values

70 This current paper reports back, as indicated in para 2 above, on a Cabinet minute of 14 February 2005 on the implementation of the government's South island high country objectives. The same minute noted that a downside of tenure review is that, for lowland areas within the high country, tenure review is not delivering outcomes consistent with the New Zealand Biodiversity Strategy. There are also associated concerns as to whether tenure review is dealing well with landscape values, especially around lakesides. I am therefore having a further Cabinet paper prepared on these issues.

Recommendations

71 I **recommend** that Cabinet:

Background

- a. **note** that pastoral leases were established under the Land Act 1948 ("Land Act"), 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;
- b. **note** 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;
- c. **note** 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 review 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;
- d. **note** 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, CAB Min (05) 2/9, CBC Memo (06) 1/1, and CBC Memo (06) 5/2 refer];

- e. **note** that in July 2005, LINZ engaged a panel of senior valuers (“Valuers”) to undertake the review of pastoral lease rental and tenure review valuation methodologies and outcomes associated with pastoral lands;

Valuers’ Report

- f. **note** that the Valuers considered that:
 - i rent should not be paid for lessees' rights of exclusive access to amenity values associated with the land; and
 - ii 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;
- g. **note** that the Valuers approach does not strictly comply with the Land Act methodology;
- h. **note** that the Valuers recommended that the:
 - i rental valuation for pastoral leases be based on original stock unit carrying capacity; and
 - ii legislation be amended to ensure tenure review valuations reflect current practice;
- i. **note** that the Valuers also recommended that:
 - i transaction prices for tenure review be made publicly available; and
 - ii 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

- j. **note** that a preliminary government Response to the Report has been prepared, the key points being that:
 - i 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;
 - ii a proper interpretation of s 131 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);

- iii 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;
 - iv 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;
 - v it is desirable to reach an outcome which is fair and reasonable for the Crown and lessees and durable; and
 - vi 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;
- k. **invite** the Minister for Land Information to report back to Cabinet in March 2007 on a policy approach which is fair and reasonable for both parties and durable;

Release of Report and Response

- l. **agree** to release the Report and Response (subject to minor editorial changes) and this Cabinet paper to enable consultation to be undertaken;

Potential impact on lessees

- m. **agree** that officials consult with lessees on the implications of the Response and options to address these implications;
- n. **note** that such options may include:
- i the Crown and lessees jointly seeking a judicial interpretation on valuation methodology;
 - ii deferring some rent until sale;
 - iii remitting rent in return for additional sustainable management contributions or improved public access;
 - iv adjusting restrictions on land use; and
 - v grandparenting the existing rental process for genuine pastoral farmers;

Potential impact on achieving the Government's high country objectives

- o. **note** that the strict application of the s 131 process as proposed in the Response may cause a tension between three of the Government objectives for the South Island high country, namely:
- i. promote the management of the Crown's high country land in a way that is ecologically sustainable;

- ii. foster sustainability of communities, infrastructure and economic growth and the contribution of the high country to the economy of New Zealand; and
- iii. obtain a fair financial return to the Crown on its high country land assets;

Potential impact on tenure review

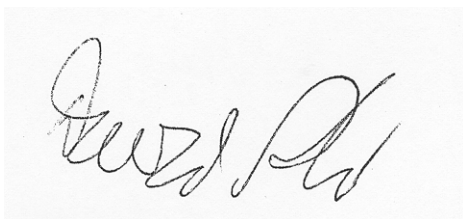
- p. **note** that the strict application of the s 131 process as proposed in the Response may cause the market value of properties for which higher rents are payable to fall, and thus alter lessees' incentives for participating in tenure review;

Next steps

- q. **agree** that officials (LINZ, MAF, DOC):
 - i. brief the High Country Accord and the High Country Committee of Federated Farmers immediately prior to the release of the Report and Response and this Cabinet paper;
 - ii. brief environmental NGOs on the contents of the Report and Response following the briefing of lessee representative groups;
 - iii. undertake a consultation process in October and November 2006 on the Report and Response; and
 - iv. are to report back to me in March 2007 with advice on a way forward;

Publicity

- r. **note** the sensitive nature of this subject and that the release of the Report and the preliminary response is likely to generate significant debate and concern for lessees and will be managed through direct consultation with them.

A handwritten signature in black ink, appearing to read 'David Parker', is centered on a light-colored rectangular background.

Hon David Parker
Minister for Land Information