

6 January 2004

Bob Cottrell
9 Hindmarsh Drive
TAUPO

Dear Bob

Official Information Act request

Your email request dated 17 December 2003 for the cabinet paper on the Lake Taupo negotiations has been processed under the Official Information Act 1982.

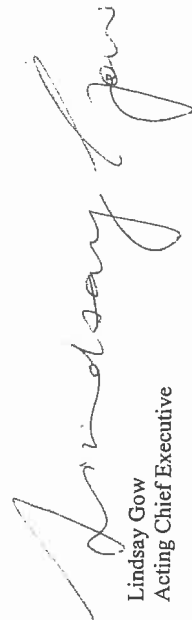
Accordingly please find enclosed, the Cabinet Paper entitled *Advancing Negotiations to Protect Lake Taupo* and subsequent Minute of Decision.

I have decided not to release a table and a number of sentences within the Cabinet paper and these have been annotated. This information is being withheld on the following grounds provided under the Official Information Act:

"enable a Minister of the Crown or any Department or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)" (section 9(2)(i))

Under section 28(3) of the Official Information Act 1982, you have the right to ask the Ombudsman to investigate and review my decision to withhold some of the information you requested.

Yours sincerely



Lindsay Gow
Acting Chief Executive



This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Advancing Negotiations to Protect Lake Taupo

On 10 December 2003 the Cabinet Policy Committee (POL):

Background

- 1 noted that Lake Taupo water quality is threatened primarily by nitrogen inputs from farms and that these inputs need to be cut by 20% just to maintain current water quality in the long term;
- 2 noted that local and central Government are working to protect Lake Taupo by promoting sustainable development through low nitrogen load (not without its catchment);

New information

- 3 noted that the estimated total cost to reduce manageable nitrogen inputs to Lake Taupo by 20% has increased from \$54 million to \$81.5 million (including GST), due to increases in pastoral land value (relative to forest land);
- 4 noted that Taupo District Council (TDC) is committed to spending \$23 million on sewage and stormwater upgrades over the next 7.5 years to help protect Lake Taupo water quality;
- 5 noted that a thirds each share between Government, Environment Waikato and TDC was appropriate when the total cost was \$54 million, but that with the new estimated total cost a thirds each share would be seen as imposing a significant unfair burden on Taupo ratepayers;

New proposal

- 6 agreed to a new cost split of:
33% Government, equivalent to \$36.7 million (including GST);
33% Environment Waikato and TDC, equivalent to \$44.8 million, noting that the split between the two councils is up to them to decide;
- 7 agreed that should the overall cost of the scheme be less than \$81.5 million, the savings will accrue pro rata to Government and Environment Waikato in proportion to their contributions, with further pro rata savings on a thirds-each basis if overall costs fall below \$54 million;

Catchment management entity

- 14 noted that officials will discuss with Environment Waikato, Taupo Lake Care (a farmers' group), and other stakeholders, the pros and cons of a new non statutory catchment management entity;

Funding

- 15 noted that no funding is being sought now and no commitments by the Crown will be made before the further consideration by POL in April 2004 referred to in paragraph 16;
- 16 invited the Minister for the Environment to report back to POL on a definitive funding proposal for reducing nitrogen inputs to Lake Taupo, and how it will be administered, by 30 April 2004;

Consultation

- 17 noted that the Minister for the Environment indicates that consultations are required with the government caucus or other parties represented in Parliament

Handwritten signature

Katherine Noble
Secretary

- Present:
- Hon Dr Michael Cullen
 - Hon Jim Anderson
 - Hon Steve Maharey
 - Hon Phil Goff
 - Hon Annette King
 - Hon Trevor Mallard
 - Hon Margaret Wilson
 - Hon Parekura Horomia
 - Hon Lianne Dalziel
 - Hon Mark Brown
 - Hon Paul Swain
 - Hon Marian Hobbs
 - Hon John Tangiorua
 - Hon Chris Carter

Copies of this document

Reference: POL (03) 390

Originals present here
Office of the Prime Minister
Department of the Prime Minister and Cabinet

Office of the Minister for the Environment

The Chair

Cabinet Policy Committee

Advancing negotiations to protect Lake Taupo

Proposal

- Hon Jim Sutton and I have been working with Environment Waikato, Taupo District, Tūwharetoa and farmers on a policy package to protect Lake Taupo water quality. This paper seeks to advance negotiations by:
 - emphasising the sustainable development rationale for government involvement
 - recognising that the overall cost estimate has risen from \$54 million to \$81.5 million
 - seeking approval that the government share increase from 33.3% to 45% of the overall cost, equal to \$36.7 million
 - recognising the need to address issues specific to Tūwharetoa lands
 - pursuing community ownership of the problem and solutions
 - seeking approval to explore explicit inclusion of some Landcorp land, via direct negotiations on a commercial basis

The negotiation goal is an agreed package of regulation and funding in place by July 2004.

Executive Summary

- Lake Taupo is threatened by nitrogen inputs from farms and urban land – these inputs need to be cut by 20% simply to maintain current water quality in the long term.
- Lake protection would safeguard the economic benefits to the community through tourism that outweigh the costs to the farming sector of nitrogen restrictions.
- The lake is a legacy of Tūwharetoa who own the lake bed and most tributaries. Tūwharetoa affiliated economic authorities own much of the surrounding land. Treaty obligations relate to both the land and the lake.
- A polluter pays based rule could be added to Environment Waikato's regional plan requiring all farmers to reduce nitrogen inputs by 20%. Current estimates indicate this would severely reduce farm incomes. Regulation on its own would be strongly resisted by farmers and therefore be unlikely to protect the lake.
- Solving this environmental and economic challenge is an opportunity for strong central Government leadership within the Sustainable Development Programme of Action
- The preferred policy response is a combination of public funding to cut nitrogen inputs, regulation to prevent landowners increasing nitrogen inputs and research and advisory services to help maintain a viable rural economy
- Cabinet agreed (CBC(03)54 refers) in July 2003 to mandate Hon Jim Sutton and myself to enter negotiations with Environment Waikato, Taupo District Council and Tūwharetoa to protect Lake Taupo.
- The key elements of the Government negotiation position were described as:
 - contribute one third of the public cost of land use change, up to \$18 million

- manage land use change via a joint fund with a primary objective of cost-effectively reducing nitrogen losses
 - treat all landowners equally by adopting a flexible suite of assistance mechanisms within the joint fund
 - pursue a parallel negotiation process with Tūwharetoa to ensure Treaty obligations are addressed
 - no compensation for loss of future profits
 - no funding commitments before further Cabinet consideration occurs
- The estimated cost of reducing nitrogen inputs by 20% has increased to \$81.5 million, mainly due to higher pastoral land values. This would lead to an excessive burden on local ratepayers under the "thirds each" funding scenario
 - The common goal of the negotiating partners is for a regulatory and funding package to be in place by July 2004
 - Negotiations have progressed to the point where consideration needs to be given to providing more government financial support, plus increased flexibility in dealing with Tūwharetoa, Landcorp and farmers
 - A revised negotiated package will be submitted to Cabinet for approval in April 2004.

Background

- The issue, as set out in CBC(03)54:
 - Lake Taupo is nationally important for its natural and cultural values and is threatened by increasing nitrogen losses from farmland
 - Protection of Lake Taupo is identified as a case study in the Sustainable Development Programme of Action.
 - The currently declining lake water quality reflects land use of 20-30 years ago, as it takes that long for groundwater to transport pasture and excreta-derived nitrogen to the lake. Direct fertiliser inputs are minor
 - Just maintaining the current land use pattern would still result in significant additional degradation over the next 30 years – see the Appendix for a catchment land use map.
 - To prevent further long term degradation the manageable nitrogen inputs need to be cut by 20%, with about 30% of this reduction coming from converting farms to low nitrogen systems such as forestry or retirement to bush. Urban inputs need to be reduced as well.
 - Neither the public nor the beneficiaries of a clean lake will voluntarily carry the costs of actions to reduce nitrogen inputs.
 - There are Treaty obligations to actively protect the lake as a taonga and to meet Māori expectations to manage their own land, noting the potential for conflicting objectives.
 - In the face of market failure, intervention by public agencies is needed to protect the lake and the economic and cultural values associated with it.
 - The overall economic benefits of a proposed intervention greatly outweigh the costs¹.
 - If regulations were to be pursued as the primary method of management without incentives, it would probably require all farmers to make sufficient changes in land use to cut back nitrogen losses by 20% each. This would render many farms unprofitable, pose compliance difficulties, be economically inefficient and probably fail to protect the lake.

¹ Based on cost benefit analysis carried out by Environment Waikato

- The core of the policy package therefore needs to be a combination of public funding to achieve the 20% nitrogen reduction and land use regulation to ensure that the public investment is not eroded by some landowners increasing nitrogen losses. Such regulation would be through a Variation to Environment Waikato's Regional Plan. The joint public fund would seek to buy, sell and covenant land in the most cost effective manner possible by dealing directly with willing landowners.

3. Environment Waikato and Taupo District Council have developed a strategic partnership approach and invited central government to contribute. The type and extent of government's contribution was approved by Cabinet in July 2003 as:

- contribute one third of the public cost of land use change, up to \$18 million
- manage land use change via a joint fund with a primary objective of cost-effectively reducing nitrogen losses
- treat all landowners equally by adopting a flexible suite of assistance mechanisms within the joint fund, encouraging a diversification of low nitrogen land uses
- pursue a parallel negotiation process with Tūwharetoa to address Treaty obligations
- no compensation for loss of future profits

4. Hon Jim Sutton and I were given a mandate to negotiate with local government and Tūwharetoa, with no funding commitments before further Cabinet consideration. On 23 September 2003 we visited Taupo and met with some representatives of Tūwharetoa. Environment Waikato and Taupo District Council, plus key stakeholders from the farming and forestry sectors. Further discussions by officials and me have highlighted the important issues that are the subject of this paper.

Increased cost estimate for cutting nitrogen inputs

5. The 20% nitrogen reduction can potentially be achieved by converting 13,500 hectares of "average" pasture land to plantation forestry or indigenous regeneration. While the actual reduction in nitrogen inputs to the lake will take many forms (i.e. diversification), calculating the cost of converting pasture land to forestry is a simple and valid method for estimating the cost of protecting lake water quality. Calculations based on 2001 data estimated the net cost of conversion at \$2000 per hectare. More recent data² indicates a \$5000 per hectare net cost is more appropriate due to stable forestry land values and increased pastoral land values. The estimated cost of converting 13,500 hectares from pastoral uses to forestry has therefore increased from \$40.5 million to \$67.5 million. The other costs remain as estimated in July 2003.

Item	Cost
Afforesting 13,500 ha at net cost of \$5000/ha	\$67.5 million
Applied research and advisory services	\$5 million
Monitoring and compliance	\$5 million
Fund administration	\$4 million
TOTAL	\$81.5 million

6. The total estimated cost of \$81.5 million is considered to be a valid basis for proceeding with negotiations. If during implementation of the fund, the underlying assumptions are found to be too conservative, there will be scope for reduced Government contribution. This includes

² Most farms in the Lake Taupo catchment are sheep and beef operations, with only five dairy farms
³ Curmow Tizard Lake Taupo catchment land valuation report, prepared for Environment Waikato, August 2003

taking advantage of any technological breakthroughs which reduce nitrogen leaching without reducing productivity.

7. Overall costs may rise due to further cost increases in converting pastoral land to forestry, or if more than 20% nitrogen reduction in nitrogen inputs to the lake is needed. If the committed funding proves insufficient to reduce lake nitrogen inputs to the target level then the "gap" should be addressed via a tightened regulation rather than an expanded public fund. The expectation of a public funds top up would drive up land value expectations, further increasing the fiscal risk. It is important to send a clear signal that the public contribution will be capped and that the fund will operate in the most cost-effective manner possible.
8. There may be some flexibility options available to the Government which may assist the councils financially, including Government funding applied earlier in the 15 year project. Such options will be discussed with Treasury officials and may be employed tactically during negotiations without increasing the overall Government contribution.

Revised funding split

9. The original negotiation position, as defined in the July Cabinet paper, is simple "thirds each". The councils have proposed two alternative funding splits. I propose a revised funding split. Assuming a total cost of \$81.5 million spread over 15 years, the four options and associated rating impact⁴ can be summarised below:

10. Government and the councils have current funding commitments estimated at \$61.5 million⁵ for general Lake Taupo water quality protection that is not directly related to reducing nitrogen inputs. These include sewage upgrades, recently approved FRST research and catchment management. When combined with the nitrogen mitigation cost of \$81.5 million, the "grand total" of Lake Taupo water quality expenditure is \$143 million over 15 years. We need to be aware of these related water quality costs so that there is no transfer between committed and additional funding that would undermine broader water quality objectives.

2)(j)

11. The councils, particularly Taupo District, consider Government should pay more than a third because:

- Taupo residents already face at least a 4.3% rise⁶ in general rates for planned sewage and stormwater upgrades. When combined with the 12% rise associated with the "thirds" scenario, the result is a 16.3% district rate rise for "water quality". Regional rate⁷ increases for nitrogen mitigation and other water quality work are additional, meaning that Taupo District ratepayers will, on average, pay an extra \$231 in each of the 15 years.
- District income levels are lower than national averages, with the net result that the ability of local residents to pay large rate increases is limited. 36% of the Taupo population are in Decile 1 or 2 for income.
- Government actions in developing Taupo farms in the 1950s through to the 1970s gives government more responsibility as a key "contributor" to the nitrogen problem
- Local government spending is expected to reflect the contributor-beneficiary considerations set out in the Local Government Act (see rating impact table)
- Lake Taupo is nationally important.

12. The counter arguments are:

- The local community will benefit the most from protecting Lake Taupo, particularly through safeguarding the local tourism sector⁸
- Future generations will benefit the most from actions taken now to protect the lake
- Local government now has an explicit responsibility to foster sustainable development with the 2002 amendments to the Local Government Act
- Protecting Lake Taupo also protects the local economy, including the rating base
- Accepting direct financial responsibility for government actions several decades ago that were legal and appropriate at the time, would be backward looking and set a precedent for parties aggrieved by all sorts of past policies to seek recompense from government
- Increasing beyond a third still has profound fiscal implications due to the precedent for other water bodies government may wish to help protect.

13. On balance, I agree that Taupo District ratepayers will face a significant burden based on funding a third of \$81.5 million, equivalent to \$27.2 million. I considered that a third each of \$54 million was affordable at \$18 million each.

12)(j)

- 14.

2)(j)

However, it is ultimately up to the two councils how they split the "local share" of \$44.8 million (equal to 55%).

15. Should the overall cost of the scheme be less than expected, I propose that the savings accrue pro rata to Government and Environment Waikato in proportion to their contributions, with pro rata savings to Taupo District accruing only if overall costs fall below \$54 million.

⁶ Taupo District advises that the current updating of infrastructural costs will increase overall "non-nitrogen" costs

⁷ Taupo residents will also be expected to pay the uniform region-wide rate component from Environment Waikato

⁸ For the year to June 2002 there were more than one million visitors to Taupo staying in commercial accommodation

16. Any further increase in the estimated overall cost of the proposal will be set out in a further Cabinet paper in April 2004. I consider cost increases unlikely, as the impending land use regulation should limit land value expectations based on productive capacity.

Managing the precedent

17. It was noted previously (CBC(03)54) that Government investment in protecting Lake Taupo "... will establish a recent precedent for Government intervention, and the associated fiscal risk will be addressed through the development of policy and criteria within the Sustainable Development Programme of Action over the next two years". This work is proceeding and will allow a consistent and rational approach by Government.

18. I acknowledge that increasing the Government share from 33% to 45% will increase consequent fiscal risk as there will be other local communities with limited ability to pay for comparable environmental protection initiatives. However, this needs to be weighed against the higher risk of failing to protect Lake Taupo if we cannot reach a mutually acceptable funding formula.

19. I propose that the fiscal risk be managed through a clear statement that confirms the discretionary nature of the Government's contribution which is based on the particular circumstances of Lake Taupo, taking into account the following factors:

- The nationally important status of the lake
- The scale and urgency of the problem and feasibility of the proposed solutions
- The cost burden on ratepayers
- Past national and local policies relating to catchment development and impacts
- Crown land holdings
- The Treaty relationship with Tūwharetoa
- Relevant national policies

20. I further propose that we have a project review three years after funding commences. The review requirements will be submitted to Cabinet with the final package in April 2004.

Discussions with Tūwharetoa representatives

21. The July Cabinet paper indicated that a parallel process would be followed with Tūwharetoa in respect of mutual Treaty obligations. A working party of officials and Tūwharetoa representatives have tentatively set a common timeline and goal: Environment Waikato's nitrogen regulation phase by July 2004 with no Tūwharetoa appeal. Four projects are being established now (November 2003) to reduce risks to meeting this goal:

- Independent science peer review, particularly of the 20% nitrogen target, and quantification of nitrogen output from Tūwharetoa lands
- Practical support for land use options, so diversification can be seen as a benefit
- Assistance with changing Trust orders and constitutions via the Māori Land Court
- An improved process for working through issues with forestry stakeholders.

22. These projects were explicitly requested by the Tūwharetoa team and are necessary to maintain good faith, timeliness and to ensure Tūwharetoa landowners are able to effectively contribute nitrogen mitigation i.e. by entering into funded nitrogen covenants (or equivalent). As these projects evolve, we will know if they can be funded within Departmental baselines. Note that this Tūwharetoa-Crown engagement on the Lake Taupo water quality issue is quite separate from the current historical Treaty settlement process being managed by the Office of Treaty Settlements.

23. I believe we need to do more to engage with Tūwharetoa, in recognition of our Treaty relationship and because they are collectively owners of 54% of the pastoral portion of the

catchment and cannot sell their land. This means that in order to meet the 20% nitrogen reduction target, we must get wide involvement by Tūwharetoa landowners through "buying nitrogen"⁹, rather than buying land and on selling it for low nitrogen land uses. Furthermore, Tūwharetoa want to be seen with the Crown as leaders in protecting the lake, as part of a careful long-term strategic positioning for the tribe.

24. I propose that we continue pro-active discussions with Tūwharetoa representatives with the aim of ensuring a good level of acceptance by Tūwharetoa landowners of the proposed funding and regulatory package to protect the lake. The discussion will include but not be limited to possible higher-level arrangements between Tūwharetoa and the Crown over funding mechanisms e.g. a guaranteed contribution from the proposed joint fund and allied research and extension services in return for a guaranteed reduction in nitrogen outputs from Tūwharetoa lands. Any such arrangement would require Cabinet approval and would need to be at least as cost effective as other funding for nitrogen reductions from the joint fund and within a Government contribution of \$36.7 million.

Potential Landcorp Role

25. Landcorp Farming Ltd owns 7500 hectares of pastoral land within the Lake Taupo catchment, about 14% of the total pastoral land (Corrections owns another 2300ha, about 5%). Therefore Landcorp (and possibly Corrections) has always been envisaged as a major corporate player in the required land use changes needed to reduce nitrogen flows to the lake by 20%. However, in July 2003 Cabinet agreed that Landcorp was not to be treated differently from other landowners (private and Māori multiple-owned), with the following recommendation:

"agree that the option of requiring forestry on Landcorp and Department of Corrections farms is not the preferred or primary means of Government action, while noting that these landholdings may utilise the joint fund to facilitate land use change"

26. The recent Environment Waikato valuation report indicated that the Landcorp farms are generally good candidates for forestry compared with some other pastoral land limited by altitude¹⁰. The implication is that without Landcorp participation, achieving the 20% nitrogen target will be more difficult given that the Landcorp and Corrections land represents 19% of the pastoral land, a generally equivalent proportion of the nitrogen reduction would involve about 2000 – 2500 hectares of land if conversion of pasture to forestry was the selected method of nitrogen reduction).

27. Landcorp owns six farms within the catchment, all with different characteristics. It is able to take a strategic and flexible approach to cost-effective nitrogen mitigation, although a number of its Taupo properties form a strategic component of Landcorp's North Island breeding operations. All factors impacting on Landcorp need to be explicitly considered.

28. A negotiated Landcorp component of the Government's contribution could:

- Provide explicit, timely and tangible Government leadership that meets the expectations of our partners and stakeholders
- Meet Government's own obligations as a landowner within the catchment
- Set an economically efficient nitrogen benchmark that would temper any unreasonable expectations of other landowners

29. Landcorp land could also be linked to:

- Any higher level Crown-Tūwharetoa arrangement as discussed above
- Catchment "re-design" as promoted by Taupo Lake Care farmers

⁹ "Buying nitrogen" would be achieved via funded covenants or equivalent mechanisms that limit future nitrogen losses
¹⁰ Higher altitude land will be cheaper to buy but the lower productivity of such land means it offers less nitrogen mitigation potential

- Establishment of an indigenous forest as a biodiversity corridor between lakeshore reserves and the Pureora Forest, providing biodiversity co-benefits that may attract funding from other sources, including corporate sponsorship and private tourist support
- The practicalities and costs of making these linkages need to be investigated.
30. I wish to explore direct negotiations with Landcorp primarily to achieve cost-effective nitrogen mitigation. Such direct negotiation would be on a commercial basis, within State Owned Enterprise policies and within the \$36.7 million Government contribution.

Overall Governance and Landowner Input

31. The success of the project relies on long-term local ownership of the problem and the solutions. Environment Waikato has provided effective leadership and coordination to date. The urban residents within Taupo District will contribute through rate increases, provided the revised cost share set out above is accepted.
32. The greater challenge lies with rural landowners who face the nitrogen capping regulation. We must avoid a rural-urban divide on this issue. The financial impacts on farmers are expected to be significant, both in terms of capital value loss and future profits. Farmers have expectations of increased productivity which typically leads to increased nitrogen leaching. The threat of regulation led to the formation of a farmers group called Taupo Lake Care (TLC). This group has generally been very constructive in its engagement with Environment Waikato and officials over the past three years. They are well informed, articulate and strongly representative of the Taupo farmers, including Tūwharetoa landowners, with over 80% membership.
33. Landowners have been told there will be no compensation for any loss of future profits due to nitrogen restrictions. However, I expect the negotiated package to include:
- additional applied research and farm trials for improved pastoral farm systems e.g. greater use of silage and wintering stock outside the catchment
 - farm advisory services on alternative land uses and business planning
 - joint fund flexibility that allows more diversified land use options within a farm.
34. Officials and Environment Waikato expect TLC will continue to have input to the overall policy package, much as they have done in the last three years. The Ministry of Agriculture and Forestry has approved in principle a Sustainable Farming Fund application from TLC that looks at developing or adapting Codes of Practice for the main farming systems (dairy, deer, sheep/beef etc) but with additional emphasis on nitrogen management. The Codes will be aligned with catchment "e-design", which seeks to optimise nitrogen mitigation potential with profitability. TLC also seeks the establishment of a catchment management "entity" with strong farmer input that would help ensure long-term commitment to nitrogen mitigation. I propose that officials discuss the pros and cons of a non-statutory catchment management entity with Environment Waikato, TLC and forestry landowners. However, robust land use regulations will still be needed.

35. TLC has also talked of "assistance" or "incentivising the nitrogen cap". There will be a range of advisory services but any direct financial transfer to landowners MUST be for the purpose of cost-effective nitrogen mitigation. We can still be creative in considering a matrix of land use changes that achieves net nitrogen mitigation, and fund accordingly. However, we should not blur this with compensation for foregone profits which is unacceptable.

Clarification of partners and stakeholders

36. During negotiations we have established a four-way partnership between Government, Environment Waikato, Taupo District Council and Tūwharetoa. This arrangement is consistent with the principles for sustainable development contained in the Sustainable Development Programme of Action and includes specific partnerships as follows:

- Government and Tūwharetoa as Treaty partners
- Government, Environment Waikato and Taupo District Council as joint funders
- Government and Environment Waikato as regulators.

37. In addition to these partnerships we have recognised farmers and foresters as key stakeholders who need to be involved in developing the solution.

Financial Implications

38. If Cabinet approves the allocation of funds, and if negotiations with local government and Tūwharetoa are successful, actual spending on land use change is likely to commence in the 2004/05 year. The recommended government contribution of \$36.7 million can be spread evenly over 15 years or "front loaded" if desired. These aspects will be set out in the April 2004 Cabinet paper, following negotiations and consultation with Treasury.

Legislative Implications, Regulatory Impact and Compliance Costs

39. The recommendations have no legislative implications. Regulation by Environment Waikato will be through provisions under the Resource Management Act, which are subject to cost-benefit analyses and appeal provisions. Combining a funding scheme with a nitrogen capping rule will reduce compliance costs for farmers in the Taupo catchment.

Consultation

40. The following government departments and agencies have been consulted in the preparation of this paper and their views have been taken into consideration: Ministries of Economic Development, Department of Prime Minister and Cabinet, the Treasury, Crown Company Monitoring and Advisory Unit, Te Puni Kōwhiri, Department of Conservation, Department of Corrections, Ministry of Research Science and Technology, Department of Internal Affairs, Ministry of Foreign Affairs and Trade, Land Information New Zealand, Ministry of Tourism and Ministry of Agriculture and Forestry.
41. Consultation has taken place with Environment Waikato, Taupo District Council, Taupo Lake Care, foresters, Landcorp, Tūwharetoa, Māori Trust Board and Māori economic authorities.

Publicity

42. Environment Waikato is scheduled to publicly release its partnership strategy on 18 November, partly in preparation for the expected regulation. I support this step in taking the policy package to the wider public. However, due to the sensitive nature of ongoing negotiations, I do not recommend any public statements based on this paper.

Next steps

43. Negotiations by officials with Environment Waikato and Taupo District Council are ongoing. Additional efforts will be needed with Tūwharetoa, Landcorp and Taupo Lake Care. I will seek to resolve all major elements of the policy package by April 2004 and present a final package to Cabinet. This timeline will be mirrored by the other negotiating parties in their respective processes. The mutual objective is an agreed package in place by July 2004.

Recommendations

44. I recommend that you:
- Note that Lake Taupo water quality is threatened primarily by nitrogen inputs from farms and that these inputs need to be cut by 20% just to maintain current water quality in the long term;
 - Note that local and central Government are working to protect Lake Taupo by promoting sustainable development through low nitrogen land uses within its catchment;

3. **Note** that the estimated total cost to reduce manageable nitrogen inputs to Lake Taupo by 20% has increased from \$54 million to \$81.5 million (including GST), due to increases in pastoral land value relative to forest land;
4. **Note** that Taupo District Council is committed to spending \$23 million on sewage and stormwater upgrades over the next 15 years to help protect Lake Taupo water quality;
5. **Note** that a thirds-each share between Government, Environment Waikato and Taupo District Council was appropriate when the total cost was \$54 million, but that with the new estimated total cost it would be seen as imposing a significant unfair burden on Taupo ratepayers;
6. **Agree** to a new cost split of:
 - 6.1. 45% Government, equivalent to \$36.7million (including GST);
 - 6.2. 55% between Environment Waikato and Taupo District Council, equivalent to \$44.8 million, noting that the split between the two councils is up to them to decide;
7. **Agree** that should the overall cost of the scheme be less than \$81.5 million, the savings will accrue pro rata to Government and Environment Waikato in proportion to their contributions, with further pro rata savings on a thirds-each basis if overall costs fall below \$54 million;
8. **Agree** that the final Government position on protecting Lake Taupo must:
 - 8.1. provide for local government to meet more than 50 percent of the marginal cost of land-use changes to reduce nitrogen inputs to the lake;
 - 8.2. recognise the primary role of local government in addressing water resource degradation;
 - 8.3. be supported by robust regulatory action by local government;
 - 8.4. confirm the discretionary nature of a Government contribution, taking into account factors such as: the nationally important status of the lake; the scale and urgency of the problem; feasibility of solutions; cost burden on ratepayers; past national and local policies on catchment development; Government land holdings; the Treaty relationship with Tūwharetoa; and that these had to be assessed in the context of the particular circumstances of the lake and of relevant national policies;
9. **Agree** that any final agreement on costs is subject to Environment Waikato and Taupo District making firm commitments to their respective shares and a comprehensive review agreement;
10. **Note** that Tūwharetoa landowners control 54% of the pastoral land in the Lake Taupo catchment and such land cannot be sold;
11. **Agree** to continue Crown-Tūwharetoa discussions with a view to ensuring a good level of acceptance by Tūwharetoa landowners of the proposed funding and regulatory package;
12. **Agree** to explore explicit inclusion of some Landcorp land in the nitrogen reduction package, via direct negotiations on a commercial basis and within the Government's fiscal commitment;
13. **Note** that officials will discuss with Environment Waikato, Taupo Lake Care and other stakeholders the pros and cons of a new non statutory catchment management entity;
14. **Note** that no funding is being sought now and no commitments by the Crown will be made before further Cabinet consideration occurs, due in April 2004;
15. **Invite** the Minister for the Environment to report back to POL on a definitive funding proposal for reducing nitrogen inputs to Lake Taupo, and how it will be administered, by 30 April 2004.

Hon Marian L Hobbs
Minister for the Environment