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Report To: Rotorua Te Arawa Lakes Strategy Group
Meeting Date: 27 September 2013
Report From: Sarah Omundsen, Programme Leader (Water Policy)

Framework for rules and incentives in the Lake Rotorua catchment

Executive Summary

This report presents a framework to deliver Lake Rotorua's sustainable nitrogen limit including consideration of costs, risks and benefits.

The framework is the culmination of nearly a decade of discussion with partners and stakeholders. It is strongly influenced by the collaborative processes that are currently operating around nutrient management in the catchment.

The framework has been endorsed by the Rotorua Te Arawa Lakes Programme and the Lake Rotorua Catchment Stakeholder Advisory Group, and has been approved by the Bay of Plenty Regional Council.

If approved and endorsed by the Strategy Group, staff will have a clear direction to implement an integrated programme of nitrogen discharge allocation, incentives and gorse conversion. As the programme design progresses, staff will seek regular involvement, approval and endorsement from this Group.

1 Recommendations

That the Rotorua Te Arawa Lakes Strategy Group under its delegated authority:

- 1** **Receives the report, *Framework for rules and incentives in the Lake Rotorua catchment*.**
- 2** **Approves and endorses the following decisions made by the Bay of Plenty Regional Council:**

Gorse

- a.** **Adopted the following Bay of Plenty Regional Council position on gorse:**

In the Rotorua lakes catchment, Council support for land use change on gorse infested land will be considered where gorse affects water

quality and land use change is to a nitrogen discharge level of no more than 4kg/ha/yr.

Allocation and Incentives

- b. Confirmed the preferred framework for allocating nitrogen to land use activities in the Lake Rotorua catchment is an integrated framework that will achieve the required nitrogen reductions through a programme of nitrogen discharge allowances, incentives and gorse conversion.**
- c. Directed staff to work proactively with farmers, both individually and collectively to support them in meeting the nutrient reductions required for the Lake Rotorua catchment.**

Nitrogen trading

- d. Approved the development of options for nitrogen trading in the Lake Rotorua catchment.**

Background

The Rotorua Te Arawa Lakes Programme has been considering ways to improve water quality in Lake Rotorua for over a decade.

Achieving the lake's sustainable nitrogen limit¹ is a key deliverable of the Lakes Program and has implications for policy development, Deed funding and implementation mechanisms. It requires a collaborative approach from partner agencies.

In accordance with the Rotorua Te Arawa Lakes Strategy Group's terms of reference, Regional Council and the Lake Rotorua Catchment Stakeholder Advisory Group's approach to deliver the sustainable limit for the lake is being presented to the Group for approval and endorsement.

In arriving at the approach, significant work has been done to assess and document the costs, risks and benefits. Three supporting documents are appended to this report that outlines the decision making process:

- **Supporting Document 1:** Options for managing gorse for water quality purposes
- **Supporting Document 2:** Framework for allocation and incentives in the Lake Rotorua catchment
- **Supporting Document 3:** Nitrogen trading in the Lake Rotorua catchment.

These documents are summarised in the comments section below.

2 Comment

Gorse

¹ Specified as 435 tonnes of nitrogen per year in the Bay of Plenty Proposed Regional Policy Statement.

Studies and expert opinion suggest that gorse stands can leach significant amounts of nitrogen to groundwater and that the removal of gorse can be a relatively cheap and cost-effective way of reducing the nitrogen load.

A report undertaken by OPUS found that the most effective way to manage gorse to improve lake water quality is likely to be through applying a combination of regulatory changes with property specific advice and incentives to encourage voluntary action.

Staff considered the report's findings and developed a proposed Regional Council position for managing gorse for water quality purposes in the Rotorua lakes catchment².

At its meeting on 26 June 2013 the Strategic Policy and Planning Committee of the Bay of Plenty Regional Council:

- a. Received the report, *Options for Managing Gorse for Water Quality Purposes*.
- b. Noted that an independent report 'Options for managing gorse for water quality purposes' was completed by OPUS.
- c. Adopted the following Council position on gorse

In the Rotorua lakes catchment, Council support for land use change on gorse infested land will be considered where gorse affects water quality and land use change is to a nitrogen discharge level of no more than 4kg/ha/yr.

- d. Noted that the report *Options for Managing Gorse for Water Quality Purposes* will be presented to the Rotorua Te Arawa Lakes for feedback and endorsement.

Allocation and incentives framework

To achieve the sustainable nitrogen limit for Lake Rotorua, a specific project on rules and incentives has been initiated. The purpose of the project is to:

- Give effect to the water quality provisions in the Proposed Regional Policy Statement that relate to Lake Rotorua, through new rules in the Regional Water and Land Plan (the rules); and
- Implement the \$45.5 million nutrient reduction fund that has been provided in Regional Council's Ten Year Plan to facilitate nitrogen reduction from rural land (the incentives).

For the rules, the first step has been determining the way nitrogen can be allocated to pastoral land uses in the catchment. Allocation of nitrogen discharges will naturally influence the design of the incentives scheme.

In developing an allocation and incentives framework, staff from all partner agencies worked closely with the Lake Rotorua Catchment Stakeholder Advisory Group and have documented benefits, costs and risks to possible approaches. This analysis confirmed the scale of nitrogen reduction required will have significant

² The Rotorua lakes catchment includes the catchments of Lakes Rotoiti, Rotorua, Rotehu, Ōkaro, Ōkāreka, Rotomā, Ōkataina, Tarawera, Tikitapu, Rotokakahi, Rerewhakaaitu and Rotomahana.

economic and social impact to pastoral farmers in the Lake Rotorua catchment, as well as the wider Rotorua community.

Regional Council has confirmed its approach to achieve the nitrogen reductions require an integrated programme of nitrogen discharge allowances, incentives and gorse conversion.

At its meeting on 17 September 2013 the Strategic Policy and Planning Committee of the Bay of Plenty Regional Council:

- a. Received the report, *Framework for allocation and incentives in the Lake Rotorua catchment*.
- b. Confirmed the preferred framework for allocating nitrogen to land use activities in the Lake Rotorua catchment is an integrated framework that will achieve the required nitrogen reductions through a programme of nitrogen discharge allowances, incentives and gorse conversion
- c. Directed staff to work proactively with farmers, both individually and collectively to support them in meeting the nutrient reductions required for the Lake Rotorua catchment.
- d. Noted that the report *Framework for allocation and incentives in the Lake Rotorua catchment* will be presented to the Rotorua Te Arawa Lakes Strategy Group for endorsement at their next meeting

Nutrient Trading

Providing landowners with options on how they can meet their required nitrogen reductions will be essential to get buy-in of the rules and incentives framework. Nitrogen trading is one of the possible tools that could be developed to support the allocation of nitrogen in the catchment. It can enable landowners to manage in the most efficient way possible by aligning economic returns with environmental issues.

To date, staff and the Lake Rotorua Catchment Stakeholder Advisory Group have assumed nitrogen trading will be one of the possible tools available to landowners to help them work within the sustainable nitrogen limit.

This paper sought confirmation from Regional Council that nitrogen trading should be investigated as a potential tool to support the management of nitrogen in the catchment.

At the same meeting as above, the Strategic Policy and Planning Committee of the Bay of Plenty Regional Council:

- a. Received the report, *Nitrogen trading in the Lake Rotorua catchment*.
- b. Approved the development of options for nitrogen trading in the Lake Rotorua catchment.
- c. Noted that the report *Nitrogen trading in the Lake Rotorua catchment* will be presented to the Rotorua Te Arawa Lakes Strategy Group for endorsement at their next meeting.

3 **Next Steps**

If the framework is approved and endorsed, staff will focus on developing the rules, designing the incentives and gorse programmes, and engaging expert advice on trading options. A critical step is seeking Cabinet approval for the incentives and gorse programmes. This is part of a wider Deed of Funding update proposed for December this year.

Detailed decisions that relate to work funded through the Rotorua Te Arawa Lakes Programme (including design of the gorse and incentives programmes) will come back to this Group for specific approval. Likewise, as rule development progresses, staff will continue to seek approval and endorsement from this Group.

4 **Financial Implications**

Current Budget

Developing service design for the incentives scheme is provided for in the Rotorua Lakes Programme budget. The \$45.5 million incentives fund is budgeted for in the Councils Ten Year Plan. There is currently no budget allocated for the gorse programme and staff are working on a breakdown of budget for this

The development of new regional plan rules is covered by the Regional Council's Strategic Policy (responsive policy) budget.

Future Implications

Future implications for delivering Lake Rotorua's sustainable nitrogen limit through gorse conversion, rules and incentives are well documented in the supporting documents.

Approval is required from the Crown for funding of the incentives and gorse programmes.

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for Programme Leader (Water Policy)

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