



Incentives Scheme: First Movers Strategy

1. Introduction

An incentives scheme for nitrogen reduction is an integral part of the programme for achieving the nutrient reduction targets for Lake Rotorua. The integrated framework adopted by the Rotorua Te Arawa Lakes Programme partners recognises that incentives are a key part of the cost sharing between farmers and the community. The incentives scheme will encourage land use change to reduce nitrogen loss, and will help achieve the sustainable limit of nitrogen discharge to the lake.

A decision has been made to establish an arms-length board to manage the \$40m incentives fund. The Board will engage a management team for making agreements with landowners to secure nitrogen reductions. The Board is expected to be in place in late 2014 and it is anticipated that the Board and management team will be fully operational in early 2015 (January-February). That date is based on the time required to recruit and appoint the Board and the management team.

2. Why a strategy?

The requirement to reduce nitrogen will come from regional rules. Before the formal rules framework is in place there may be opportunities to purchase nitrogen discharge reductions. The Regional Policy Statement establishes a nitrogen reduction catchment target to be achieved by 2022. Early action is needed to achieve this target even though there is some inherent risk with starting before rules are in place.

Securing 100 tonnes of nitrogen reductions through the incentives scheme will be a significant challenge, requiring a large amount of land use change in the catchment.

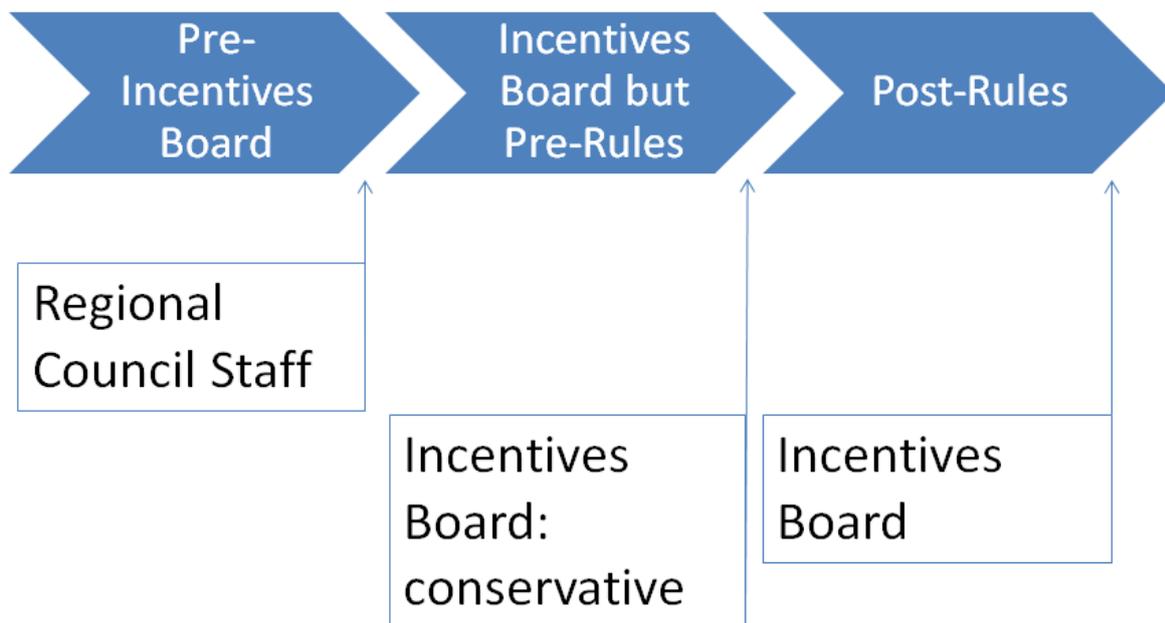
Some landowners may already be making plans to sell nitrogen reductions. Opportunities may arise now, for example due to changing circumstances of landowners or through innovation. The First Movers Strategy will provide coordination between the Council and the Board during the incentives scheme establishment phase and will ensure that early opportunities are not lost.

From early 2015, landowners who can show how they will reduce their nitrogen discharges to below their NDA may apply for incentives. The NDA is not currently known at the individual property level. As the rules progress through the development and legal process a clearer idea of the allocation method and consequently the NDA for individual properties will develop. In the meantime some landowners may be looking to make decisions based on the early rules framework and may be considering future land use opportunities.

3. Phases of the First Movers Strategy

Decision-making for the Incentives Scheme will occur in three phases. These phases have key relationships to the rules framework. The First Movers Strategy applies to the first two phases. Figure 1 shows these phases and relationships.

Figure 1: Decision-making Phases



Pre-Incentives Board

Prior to the formation of the entity and introduction of the rules, Council staff will be responding to enquiries about participating in the incentives scheme. During this phase, NDAs will not be known exactly but discussions will be based on provisional NDA assessments. Council staff (First Movers liaison person) will put in place processes to ensure that early prospective agreements are not missed and that relationships are built in support of future agreements.

Council staff will not actively seek nitrogen sellers or commit funding. This will be the role of the Lake Rotorua Incentives Board.

Incentives Board but Pre-Rules

The Board will be established prior to the introduction of the rules. At this stage the allocation method will not be confirmed and the Board will make agreements based on provisional NDAs. The

provisional NDA for properties greater than 40 hectares can be estimated based on modelling the existing benchmarking data. Properties under 40 hectares lack benchmarking data and will require a different process. Farm nutrient plans will form a key component of any agreements.

The Incentives Board will need to take a conservative approach to agreements because of the lack of certainty associated with the NDAs. This means that the following will be favoured:

- Larger reductions in nitrogen discharges
- The application of known techniques
- The use of conservative estimates/lower end of ranges.

Where innovative approaches are being negotiated a greater level of due diligence will be required. In some cases the uncertainty or risk sharing may need to be recognised in contractual agreements although it is recognised that this may impact on the willingness to engage with incentives agreements.

Post-Rules

The introduction of the rules will establish the allocation method and will provide more certainty around agreements. From this point the Incentives Board will be in the position of being able to negotiate agreements within known parameters (from the nutrient discharge rules).

5. Relationship Building

The First Movers Strategy will assist applications and will build and maintain relationships with prospective sellers by:

- Confirming that the Board/Council is interested in the ideas and plans that landowner have to reduce nitrogen discharges
- Discuss what would be required for a proposal to be successful (such as evidence of permanency of nitrogen reduction, provision of legal certainty)
- Refer the landowner to the funding for support and advice (FNPs and provisional NDA assessments) to ensure all relevant information is available
- Register the landowner on contact database (and keep them informed through newsletters/emails)
- Invite the seller to stay in contact with the First Movers liaison person
- Provide a formal response to the landowner of the Council/Board's interest in the opportunity, anticipated timeframes and any next steps.

6. Formal Responses to landowners

Depending on the stage that a proposal is at, a Letter of Intent or Heads of Agreement can be used to establish that there is interest in an opportunity that has been presented. These are not legally binding commitments but they do clearly outline the main components relevant for a tentative agreement. In some cases a written response outlining what will happen next may be sufficient.

7. Council/Board Interaction

The Council will support the Board through the First Movers Strategy by:

- Providing the Board with a list of interested parties and Formal Responses to Landowners when it forms at the end of 2014
 - Continuing to accept and process early applications and communicate these to the Board until such time as the Board is in a position to take over the process.
-