



Briefing: Chateau Tongariro Expression of Interest update and options for next steps

To	Minister of Conservation	Date submitted	12 August 2024
Action sought	Indicate your preferred option for next steps for the Chateau	Priority	High
Reference	24-B-0385	DocCM	DOC-7711553
Security Level	In Confidence		
Risk Assessment	High Significant risk of damage to buildings and high levels of reputational risks	Timeframe	26 August 2024
Attachments	Attachment A – Chateau Tongariro – Feasibility Review 26 July 2024 (Draft)		
Contacts			
Name and position			Cell phone
Mike Tully, Deputy Director-General, Organisation Support			9(2)(a)
Ruth Isaac, Deputy Director-General, Policy and Regulatory Services			9(2)(a)

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Executive summary

1. As you are aware, DOC is investigating long-term options for the Chateau Tongariro (the Chateau), including options to re-lease the building. We have engaged CBRE Limited (CBRE), property agents with expertise in the hotel industry, to provide advice on whether it is commercially viable for a private operator to lease the Chateau to run a hotel.
2. CBRE have provided a draft report presenting two options that could be worth testing with the market through an Expression of Interest (EOI). ^{9(2)(g)(i), 9(2)(f)(iv)}
[REDACTED]
[REDACTED] They estimate that it would cost the Crown ^{9(2)(f)(iv)} to repair and strengthen the building.
3. Given the significant Crown investment that is likely required to successfully lease the building to a private operator, we are seeking your direction on next steps. We can either:
 - a) not proceed with the EOI and take a paper to Cabinet on remaining options for the future of the Chateau
OR
 - b) proceed with the EOI to confirm whether anyone is willing to take the building on (with or without Crown funding) and then take a paper to Cabinet on next steps if required.
4. We recommend that we do not proceed with the EOI on the basis ^{9(2)(g)(i), 9(2)(f)(iv)}
[REDACTED]
5. We have not completed wider analysis of the benefits of the Crown investing in the Chateau, including its economic value for the local economy and its heritage value for New Zealand. We plan to engage with the local community, iwi, key stakeholders, Heritage New Zealand and the Ministry of Culture and Heritage to inform Cabinet decisions on the long-term future of the Chateau. This includes engaging with third parties (e.g., investor, developer) who have registered interest in the Chateau.

We recommend that you ... (Ngā tohutohu)

		Decision
a)	Note DOC is investigating long-term options for the Chateau, including the potential to re-lease the building. We have engaged CBRE to provide advice on commercially viable options for re-leasing the building to inform an EOI process. We are aiming to complete the EOI by 30 September 2024.	
b)	Note CBRE advises that there will be ^{9(2)(g)(i), 9(2)(f)(iv)} [REDACTED] (estimated ^{9(2)(f)(iv)} [REDACTED] to bring the Chateau up to standard.	
c)	Approve the next step: i) Do not proceed with the EOI and take a paper to Cabinet on remaining options for the future of the Chateau(recommended) OR	<div style="border: 1px solid black; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 0 auto;"> Yes / No </div>

	Proceed with the EOI and take a paper to Cabinet on next steps after its completion if required	Yes / <u>No</u>
d)	Note any decisions on the future of the Chateau that impact on long-term decisions for the area will require engagement with key stakeholders and iwi, and may impact the Treaty of Waitangi settlement negotiation process underway as well as current ski field processes.	



Date:
12/08/2024

Mike Tully
Deputy Director-General, Organisation
Support



Date: 11 / 09 / 20 24

Hon Tama Potaka
Minister of Conservation



Date: 12/08/2024

Ruth Isaac
Deputy Director-General, Policy and
Regulatory Services

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Purpose – Te aronga

1. This briefing provides you with an update on the expression of interest (EOI) process for the Chateau Tongariro (the Chateau) and seeks your direction on next steps.

Background and context – Te horopaki

2. In December 2023, we provided you with advice on the Chateau as an abandoned building on public conservation land (Ref 23-B-0479). This noted that DOC is currently incurring significant cost maintaining the Chateau and ancillary buildings (\$1.830m for 2023/24 excluding legal costs). You requested that DOC investigate options for decommissioning the buildings, while a longer-term solution for the buildings is explored.
3. In February 2024, we provided advice on potential decommissioning options as a short-term measure for the buildings (Ref 24-B-0063). We are due to brief you in October 2024 to seek clarification of your preference for a short-term measure, following the completion of the EOI process on 30 September.
4. DOC engaged CBRE Limited (CBRE) as our property agent to support the development and execution of the EOI process. We have now received a draft report from CBRE on two options that could be tested with the market in an EOI process. The draft report concludes that the commercial viability of both options requires Crown investment of at least 9(2)(f)(iv) to address known issues with the building. Given this finding, we are seeking your direction on next steps.
5. Since the closure of the Chateau in March 2023, it has been the subject of significant public and commercial interest. The Mayor of the Ruapehu District Council has started a parliamentary petition to preserve and restore the hotel (9,251 people have signed the petition so far).

Commercial options for leasing the Chateau

6. There are significant repairs and seismic strengthening costs (being the largest costs) to bring the Chateau up to acceptable standards and this financial challenge affects the commercial attractiveness of any investment. These costs have been included in CBRE's financial modelling resulting in the options set out in the table below:

	Nature of lease
Option 1: Short-term occupational lease	A typical hotel lease. The operator would be responsible for all internal maintenance and the Crown would be responsible for the structural aspects
Option 2: Long-term	Lease of land and buildings to investor or owner operator

9(2)(i), 9(2)(j)

7. For both options, CBRE estimate that at least 9(2)(f)(iv) of Crown investment is required to repair and strengthen the building before it would be taken on by an investor/operator. This would cover costs for repairs, refurbishment of some staff accommodation, hotel room and hotel facilities renovation, other related construction and project management costs, and contingencies.¹
8. 9(2)(g)(i), 9(2)(f)(iv)

Granting a concession based on these terms

9. Both proposed terms are possible under the Conservation Act 1987, which allows lease and licence concessions to be granted for up to 30 years, or up to 60 years in exceptional circumstances (regardless of how the term is structured e.g., 30 years plus an additional 30 years).
10. Iwi and hapū advised DOC during engagement on the Tūroa concession that they do not support a term of longer than ten years, and if the same view is held for the Chateau, this would need to be balanced against the need for an attractive lease offering and investment certainty when considering the granting of a concession term.

Return on Crown investment

11. While a Crown investment of an estimated 9(2)(f)(iv) would be required to repair the building, this cost would be offset in part by the lease revenue for each option. However, under both options, investment in the Chateau results in negative net value to the Crown (see Table below):

9(2)(i), 9(2)(j)

12. This analysis does not consider:
 - any economic benefit to the region resulting from the operations of the hotel;
 - other associated costs that will be attributed to DOC such as water, waste water, and line charges; or
 - costs to upgrade infrastructure that supports the Chateau such as the water treatment plant; or
 - other costs such as removal of improvements or any demolition of buildings which are yet to be confirmed.
13. The business case for investment in the Chateau would be impacted by the above considerations and would need to also consider risks such as the ski field operations and climate change that may affect the commercial viability of the Chateau.
14. In addition, the heritage value of the Chateau (as a Category 1 Heritage New Zealand listed iconic building) to New Zealand is also not reflected in these figures and cannot be easily quantified. There is likely to be a strong public interest and response to options on the future of the hotel in part because of its heritage status (as noted previously, there is already a petition underway to preserve the building).

¹ This estimate is based on several critical assumptions, such as DOC's cost estimates being correct, that there are no significant geotechnical or contamination issues, and that the hotel is to be refurbished to a 4.5 star rating.

15. We have not quantified the impact that the Chateau's operation has on the local economy. However, we know that the hotel previously employed 73 staff at peak operations and accounted for 30% of hotel room stock in the district. The permanent or long-term closure of the Chateau alongside the uncertainty over the future of the ski fields is likely to negatively impact the local economy.

Options for next steps

16. Given the findings of CBRE's report that Crown investment of an estimated [redacted] 9(2)(f)(iv) [redacted] we seek your direction on our next steps. We can either:
- a) not proceed with the EOI and take a paper to Cabinet on remaining options for the future of the Chateau
 - OR
 - b) proceed with the EOI to confirm whether anyone is willing to take the building on (with or without Crown funding) and then take a paper to Cabinet on next steps if required.

17. The details of these options are set out below:

Options for next steps	Main Advantages/benefits	Costs	Main Risks
<p>a) Do not proceed with EOI No market engagement.</p> <p>Take a paper to Cabinet on other options for the Chateau.</p>	<ul style="list-style-type: none"> • Avoids further time and costs related to completing an EOI that is unlikely to be successful if Crown investment is not available. • Enables resources to focus on considering other future options that you could then take to Cabinet. 	<ul style="list-style-type: none"> • The cost of the EOI process is up to \$100k for CBRE some of which has already been incurred however the balance would be a cost saving. • DOC will continue to incur operating and maintenance costs estimated to be \$2.1m for FY 24/25. 	<ul style="list-style-type: none"> • Reputational risk: There is significant pressure on the government to make a fast decision on the future of the Chateau Tongariro and an expectation that an EOI process will be completed. • Media and public scrutiny: There is likely to be increased media and public attention on the decision not to proceed with an EOI and the government's intentions.
<p>b) Proceed with EOI Engage with the market but clarify Crown funding not confirmed/ guaranteed, and validate interest based on no Crown funding.</p> <p>Take a paper to Cabinet once the EOI is completed to confirm next steps if required.</p>	<ul style="list-style-type: none"> • The government can confirm market engagement completed and obtain actual market responses confirming whether the options are attractive. • Those who have already registered an interest in the Chateau will be given an opportunity to confirm commercial interest which may result in options that are not included in CBRE's report (e.g., co-funding). 	<ul style="list-style-type: none"> • The cost of the EOI process is up to \$100k for CBRE. • DOC will continue to incur operating and maintenance costs estimated to be \$2.1m for FY 24/25. 	<ul style="list-style-type: none"> • Reputational risk: If Crown funding is unlikely given the fiscal environment, the opportunity presented to market could be seen as disingenuous and deter potential market participants from responding. • Financial risk: 9(2)(g)(i), 9(2)(f)(iv) [redacted] [redacted] This approach will continue to incur costs with limited expectation of an outcome. • Relationship risk: Similarly, if we progress with the EOI we will need to engage more fulsomely with iwi and hapū about the EOI process. This is likely to be seen as putting additional pressure on iwi and hapū while we are also engaging with them on Whakapapa ski field and resolving concerns related to

			Pure Tūroa Limited's concession, again with limited expectation of a commercial outcome.
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18. We recommend that we do not proceed with the EOI [redacted] 9(2)(f)(iv), 9(2)(g)(i) [redacted] A Cabinet decision will be needed on the next steps for the building, including whether to invest in repairing the building or progress with other options.
19. As you are aware, the Minister of Finance has signalled in a letter to all Ministers that there will be a very high bar for any new funding requests. Agencies will be expected to meet cost pressures within baselines and are unlikely to be invited to submit budget initiatives for Budget 2025.

Consultation – Kōrero whakawhiti

20. Any decisions on the future of the Chateau that impact on long-term strategic decisions for the area could impact the Treaty of Waitangi settlement negotiation process underway and will require extensive engagement with key stakeholders and iwi.
21. Members of Ngati Tuwharetoa are occupying/informally using some of the assets associated with the Chateau. This includes an informal community hub that has developed in the Whakapapa Tavern, and the Ariki, Ta Tumu Te Heu Heu has relocated his office from Turangi, into the one of the houses associated with the Chateau. This means that any decisions on the future of the Chateau and related buildings, whether this includes initiating an EOI process or making decisions to mothball buildings, will require careful engagement.
22. We will also engage with local communities, key stakeholders, Heritage New Zealand and the Ministry for Culture and Heritage about the options for the future of the Chateau, including any potential commercial interest. This includes engaging with third parties (e.g., investor, developer) who have registered interest in the Chateau.

Legal implications – Te hiraunga a ture [legally privileged]

23. [redacted] 9(2)(h)
24. [redacted]
25. [redacted]

Next steps – Ngā tāwhaitanga

25. If you agree that we should not proceed with the EOI, we will prepare a Cabinet paper on the remaining options by November 2024 to allow sufficient time to undertake targeted engagement (as noted above).
27. If you wish for us to proceed with the EOI, we will complete this by 30 September 2024 and brief you on the outcome in early October 2024.

October 2024

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Attachment A

Chateau Tongariro – Feasibility Review 26 July 2024 (Draft) **Withheld in full under section 9(2)(i)**

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