



Briefing: Update on the Chateau Tongariro

To	Minister of Conservation	Date submitted	28 March 2023
Risk Assessment	High There are significant risks to be managed including legal, reputational, financial, and health and safety	Priority	High
Reference	23-B-0111	DocCM	DOC-7298874
Security Level	In Confidence		
Action sought	Direction about next steps for heritage chattels	Timeframe	13 April 2023
Attachments	No attachments		
Contacts			
Name and position			Cell phone
Marie Long, Deputy Director-General, National Operations and Regulatory Services			s 9(2)(a)
Karl Beckert, Director, Operations Support			s 9(2)(a)
Stacey Wrenn, Principal Advisor, Operations Support			s 9(2)(a)

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Executive summary – Whakarāpopoto ā kaiwhakahaere

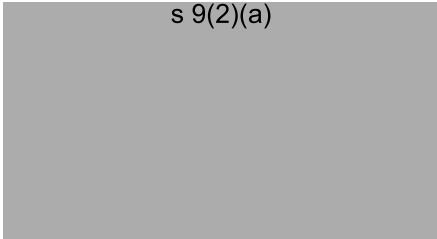
1. The Chateau Tongariro (**the Chateau**) is a category 1 Heritage New Zealand Pouhere Taonga listed building in Tongariro National Park that was previously operated as a hotel. The former lessee, KAH New Zealand Limited (**KNZ**) recently closed the hotel and terminated their lease with us.
2. Under the terms of their lease, KNZ yielded the Chateau to us when they terminated the lease. We are now responsible for the security, maintenance, and operational management of the Chateau.
3.

s 9(2)(h)
4. There is a Carl Kahler painting of the pink and white terraces in the Chateau. While this painting is owned by KNZ, we understand they intend to sell it, either to the Crown, a future operator, or at a public auction. We are seeking your direction about how to proceed regarding the Kahler painting and other items with heritage values. We recommend you instruct us to work with the Ministry of Culture and Heritage (**MCH**) to identify public museums who may wish to acquire the Kahler painting.
5. There are significant costs associated with running the Chateau. We will seek approval to establish a new appropriation specific to costs related to the Chateau.
6. We do not currently know the extent of the seismic risks of the Chateau. We are treating the site as a hazard and have a health and safety plan in place to manage these risks.
7. We have so far focused on the transition of the Chateau to the Department. We are now starting to consider the long-term options for the Chateau. There is significant public interest in the future use of the Chateau.
8. We are taking a cross agency approach to the management of the Chateau, working with Land Information New Zealand (**LINZ**) and MCH on relevant matters. We are establishing a steering group for wider regulatory issues in Tongariro National Park and will invite LINZ and MCH representatives to this group to discuss matters relating to the Chateau.

We recommend that you ... (Ngā tohutohu)

		Decision
a)	Agree that the Crown is not interested in purchasing the Carl Kahler painting.	Yes / No
b)	Agree that the Department should work with the Ministry of Culture and Heritage and KAH New Zealand Limited to identify interested parties in the Carl Kahler painting.	Yes / No
c)	Agree that we advise KAH New Zealand Limited the Crown will not purchase any of the remaining heritage chattels.	Yes / No

d)	<p>Note that we are continuing negotiations with KAH New Zealand Limited to give effect to the termination clauses of the Chateau Tongariro lease.</p>	
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Date: 28/03/2023

Marie Long
 Deputy Director-General, National
 Operations and Regulatory Services
 For Director-General of Conservation

Date: / /

Hon Willow-Jean Prime
Minister of Conservation

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Purpose – Te aronga

1. The purpose of this briefing is to update you on the termination of the lease for the Chateau Tongariro and seek your direction on matters of high risk or public interest.

Background and context – Te horopaki

2. The Chateau Tongariro (**the Chateau**) is a category 1 Heritage New Zealand Pouhere Taonga listed building at the entrance to Whakapapa Village in Tongariro National Park that has been operated as a hotel since 1929.
3. KAH New Zealand Limited (**KNZ**) have operated the hotel since 1991 under a lease granted by us, when they purchased the Chateau from Tourist Hotel Corporation (**THC**), a Crown-owned entity. KNZ purchased the Chateau as a going concern, taking ownership of the buildings and improvements (collectively referred to as the **improvements**) along with the hotel chattels.
4. KNZ's lease expired in 2020. Prior to the expiry of the lease, we attempted to negotiate a new lease with KNZ, but were unable to reach agreement on the terms of a new lease. When their lease expired, KNZ moved to a monthly lease agreement, with a 30-day termination clause.
5. On 31 January 2023, KNZ advised us they were closing the Chateau on 5 February 2023, due to seismic risks identified in a Detailed Seismic Assessment they commissioned. They also cited the uncertainty about the future of Whakapapa ski field due to Ruapehu Alpine Lifts Limited entering voluntary administration as a factor in their decision. KNZ formally notified us of their intention to terminate the lease on 6 February 2023, with the termination taking effect on 9 March 2023.
6. As well as the Chateau building, the lease covers 24 additional buildings located around Whakapapa Village, including the tavern, a café in an historic building, and staff accommodation.
7. Under the terms of the lease, all improvements were yielded to the Department, with no compensation, on the termination of the lease on 9 March 2023. We have worked closely with KNZ staff to ensure a smooth transition from an operational perspective.

Transition of the Chateau Tongariro

Terms of the lease

8.  s 9(2)(h)

Improvements to be yielded in good condition

9.  s 9(2)(h)

10.

11.

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Payment for the value of the improvements

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Seismic risk

17. Notwithstanding what KNZ have said publicly about the potential seismic risk of the Chateau, a Detailed Seismic Assessment is required to fully understand the health and safety risks and potential remediation work required.
18. KNZ are not likely to share their Detailed Seismic Assessment with us until we have resolved their termination obligations of the lease, if at all.
19. We are starting a procurement process to commission our own Detailed Seismic Assessment. Until we better understand the seismic risks, we are treating the Chateau as a hazard and have a health and safety plan in place that reflects this.

Operational matters

20. We have 24-hour security in place at the Chateau to prevent public access to the main building.
21. Our brokers are negotiating with insurance providers to provide proposals for what insurance cover they are prepared to offer. This is a complex insurance situation, and given the nature and condition of the buildings, along with the geographical location, insurers consider it a high risk. If insurance cover is offered it will likely only be for demolition costs for natural disasters and a low level (less than \$10m) for damages caused by other events. We will advise you what our insurance options are as soon as we receive the proposals.
22. We are maintaining the building on a day-to-day basis, including keeping the building heated and ventilated.
23. We will be undertaking urgent repair and maintenance priorities, for example fixing leaks, as identified by the condition assessment to prevent significant deterioration of the building.

Chattels and items with heritage value, including artwork

24. KNZ have left the hotel chattels, including furniture, bedding, appliances, and artwork, in the Chateau. We have advised KNZ that we are not taking responsibility for any loss or damage to these items while they remain in the Chateau.

25. KNZ have identified chattels artwork and other items with heritage value (**heritage chattels**). They are interested in reaching an agreement for either the Crown or a new operator to purchase these items so they can remain at the Chateau. It is very unlikely a new operator will be in place before KNZ wants to realise the value of the heritage chattels.
26. We are aware there is public interest in the heritage chattels, and that some items may have been donated to either THC or KNZ by members of the public. KNZ purchased all THC's chattels as part of the sale in 1991, and therefore own all heritage chattels.
27. The Ministry of Culture and Heritage (**MCH**) have reviewed the list of heritage chattels. After consulting with experts at Te Papa, they have advised the only item they consider holds significant heritage value is a painting by Carl Kahler of the pink and white terraces. We would require a valuation to understand the likely value of this painting. The highest price reached for a Kahler to date that we are aware of is US\$826,000 in 2015.
28. To keep the Kahler painting with the Chateau, the Crown would need to consider purchasing the painting.
29. KNZ will look to sell the heritage chattels that are not of interest to the Crown. Te Papa have indicated they may be interested to purchase the Kahler painting before a public auction if it is determined to align with their collection development priorities, noting that it would need to go through Te Papa's normal acquisition process. Other public museums may also be interested in this painting.

Options for the heritage chattels

30. As there is public interest in the heritage chattels, we are seeking your direction on our next steps.
31. We recommend you instruct us to work with MCH and KNZ to attempt to reach an agreement to for KNZ to sell the Kahler painting to a New Zealand museum, for example Te Papa.
32. If this is not successful, we recommend that the Crown does not look to purchase the Kahler painting, as this would potentially be a significant cost for the Crown. The Protected Objects Act 1975 may apply to this work, which would potentially limit the ability to export the painting out of New Zealand.¹
33. We recommend you instruct us to advise KNZ we have no interest in the remaining heritage chattels. In this case, we expect KNZ will look to sell these items. We have prepared reactive messaging that explains the Crown was compensated for these items when they were sold in 1991.

Future options for the Chateau

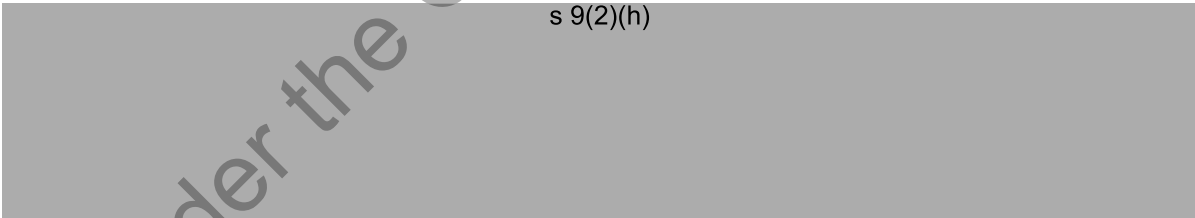
34. Our focus to date has been the transition of the Chateau to the Department. We are now starting to consider the future options for the site. This analysis will be informed by the condition assessment and our understanding of the seismic risks.
35. We have been approached by several parties interested in renovating and operating the Chateau. We are keeping a record of interested parties. Any future operator will require a lease from us under the National Parks Act 1980.
36. Local government and other stakeholders are advocating for solutions that will result in the Chateau continuing to be run as a hotel. We are keeping stakeholders updated.
37. We will update you as we progress our analysis of options for the future use of the Chateau.

¹ The Protected Objects Act 1975 does not fully prohibit the export of a protected New Zealand object; however it does require permission from the Chief Executive of the Ministry for Culture and Heritage.

Cross-agency approach

38. We have met with both Land Information New Zealand (**LINZ**) and MCH to discuss how we can work together to protect the Crown's interests in matters relating to the Chateau.
39. LINZ undertakes similar work for LINZ-owned assets, including heritage buildings. They have agreed to work with us in an advisory role, and will be providing advice on how we look after the building and obtain the necessary information to make informed decisions about the preservation and maintenance of the Chateau.
40. MCH are advising us about the artwork and other heritage chattels at the Chateau. We will be seeking further advice from MCH and Heritage New Zealand Pouhere Taonga as we focus on maintaining the Chateau, preserving its heritage values, and considering the future use of the Chateau.
41. We have advised Treasury of the significant financial risk the Chateau presents. We will seek approval from Treasury to establish a new appropriation specific to costs related to the Chateau.
42. We are establishing a steering group that will take a strategic approach to significant regulatory matters in Tongariro National Park, including the closure of the Chateau and Ruapehu Alpine Lifts Limited entering voluntary administration. We have invited LINZ and MCH to join this steering group for matters relating to the Chateau.

Risk assessment – Aronga tūraru

43. We are aware KNZ will not agree with our position on their end of lease obligations; for example, their position is the Chateau is in good condition, which we do not agree with. There is a high risk KNZ will challenge our position, which may result in mediation or other legal action. Crown Law will review our proposed position before we enter into end of lease negotiations with KNZ.
44. The Chateau is not currently insured, creating a risk for us if there is a natural disaster or an event such as a fire. Our brokers are negotiating with insurance providers to put insurance in place as soon as possible.
45.  s 9(2)(h)
46. There is a strong public connection to the Chateau, including to the artwork and heritage items on display. There will be some members of the public who expect these items to remain with the Chateau, and there is reputational risk in a decision that the Crown will not purchase these items. We have prepared reactive messages that explain the Crown was compensated for these items when they were sold in 1991, and that we are working with MCH to identify solutions that will protect items with high heritage values (at this stage, only the Kahler painting has been identified as being high value).
47. There is significant public interest in the future of the Chateau, including from iwi, local government, local businesses, and members of the public. We will consider the different views and expectations of iwi and stakeholders as we assess the options for the future use of the Chateau.
48. The Chateau closed at a time when there is uncertainty about the future of Whakapapa and Tūroa ski fields due to Ruapehu Alpine Lifts Limited entering voluntary administration. There is concern and uncertainty about the economic future of Whakapapa Village in particular, which has wider implications for the Ruapehu area.

We are taking a strategic approach to matters we influence as a regulator, and are establishing a steering group that looks across regulatory issues in Tongariro National Park rather than looking at each issue in isolation.

Treaty principles (section 4) – Ngā mātapono Tiriti (section 4)

49. We will be working with iwi with an interest in the Whakapapa area on the future use of the Chateau.

Consultation – Kōrero whakawhiti

50. We have consulted with LINZ and MCH. We will continue to work with these agencies as we manage the Chateau and consider its future use.

Financial implications – Te hiraunga pūtea

51. There are significant costs for us to manage the Chateau, including security, insurance, additional staff costs, maintenance, and lost concession revenue and community services levies. We have estimated the cost from March 2023 until the end of June 2023 to be \$680,000; that is, \$170,000 per month.
52. We have also commissioned an independent condition assessment and may commission a Detailed Seismic Assessment. The condition assessment is essential for us to have evidence about the work required by KNZ to bring the Chateau up to a good condition to comply with its lease exit obligations. The Detailed Seismic Assessment will help us to manage health and safety risks, and understand the future work that may be required by the Crown to bring the building up to an acceptable seismic standard.
53. If the Chateau is damaged, we will need to cover any costs incurred that would otherwise have been covered by insurance until we get insurance in place. We are attempting to negotiate up to \$10 million insurance for damages, and up to \$2 million for demolition costs in the event of a natural disaster.
54. We will seek approval to establish a new appropriation specific to costs related to the Chateau.
55. A budget bid will be required if the Crown wants to undertake seismic strengthening work in the future. This is likely to be for Budget 2024, or later, as the Detailed Seismic Assessment needs to be completed first, and we need to consider the level of priority of seismic strengthening for the Chateau relative to other work.

Legal implications – Te hiraunga a ture

56.  s 9(2)(h)

57. 

Next steps – Ngā tāwhaitanga

58. We will:
- Continue to negotiate an appropriate outcome that gives effect to the termination clauses of the lease.
 - Seek approval to establish a new appropriation specific to costs related to the Chateau.
 - Continue to work with LINZ and MCH on matters they have an interest in.

- Undertake operational management of the Chateau in the short term, while also considering the future use of the Chateau in the long term. We take a strategic approach when considering the future use of the site that also takes into account the future of the ski fields.
- Give effect to your direction regarding the artwork and heritage chattels.

59. We will continue to update you on matters relating to the Chateau, primarily through the status report.

ENDS

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