

BEFORE THE HEARINGS COMMISSIONERS FOR THE WAIKATO DISTRICT COUNCIL

RURAL TOPIC – HEARING 18

SUMMARY STATEMENT FROM STEPHEN McCOWAN AS A DIRECTOR OF MIDDLEMISS FARM HOLDINGS LIMITED

25 September 2020

MAY IT PLEASE THE PANEL

Introduction

- 1) My name is Stephen McCowan, and I am qualified in agricultural valuation and business administration (B.Agr (Valuation & Dip.Bus.Admin) and I have been involved in rural land management and business throughout my working life. I represent Middlemiss Farm Holdings Ltd in these proceedings but I also part own a large dairy farm in the Waipa District (Drumlea) and I have also undertaken various enhancement subdivisions in Rodney District for over 20 years. I have also been implementing the enhancement at 95 Jericho Rd (owned by Middlemiss) under the legacy Franklin Rules that is referred to in the evidence of Mr Pryor.
- 2) In this summary I outline our concerns for the future of New Zealand's economic success given the present path the NZ rural sector is being forced down, and how we might help change this course.
- 3) Today's rural landscape and the new and proposed rules we as farmers have to operate under, are very different to 3 years ago. So much so that many of us, as farmers of the land, feel that the World is against us because we are now seen as polluters of the environment and responsible for climate change.
- 4) A lot of farmers are struggling to survive financially given the extremely difficult seasons and poor financial performance of the likes of Fonterra.
- 5) On top of this we have a government that isn't following the covenants in the Paris Accord as was agreed with regard to the condition that it must not affect food production with its climate change policies. Fonterra has recently signaled that it no longer sees its milk supply increasing due to the environmental pressure on its suppliers.

- 6) Covid-19 is and will likely continue to change where and how New Zealanders want to live & work. This is likely to be in a safer less populated rural environment for those that can afford to do so.
- 7) Middlemiss Farm Holdings Ltd has detailed in its submissions a “win win” strategy for Council and the Panel to consider, and if this is accepted, we will see the flow of benefits to all New Zealanders as well as our natural ecosystem’s.
- 8) The recent ruling by Environment Court Judge JA Smith in the *Cabra v’s Auckland Council*, has clearly sided with the protection and enhancement of our environment and has provided “Significant Environment Area”, “Wetland” & “Re-vegetation” incentives, so that landowner’s are properly enabled to restore New Zealand’s natural landscapes.
- 9) The costs of enhancement and re-vegetation planting, weed control, infrastructure requirements, fencing, survey and legal, commissions etc, are more or less the same on a per hectare basis for each region of New Zealand.
- 10) The Waikato District Council area is different to Auckland Council’s due to less population pressure resulting in lower land and site values. This in turn means that Waikato farmers could not justify the costs to re-vegetate if WDC used the Auckland Unitary Plan re-vegetation rules as they now stand, and as set out in **Attachment C** of the *Cabra* decision.
- 11) For this process to be economically viable, and therefore successful, throughout the whole Waikato District Council area, the “yield” threshold areas and provisions for transferable or in-situ sites (title) will need to be adjusted from the Auckland numbers. This can be done by either of the following methods;
 - a) Increase the number of site entitlements for the same sized area that is protected e.g. 2 site entitlements instead of 1 for 5ha of re-vegetation.
 - b) Or reduce the area to be re-vegetated from say 5ha to 2.5ha for 1 site entitlement.
- 12) I have **attached** my financial workings based on the 4 proposed options of environmental enhancement planting using an average of the Waikato farmland and bare lifestyle block values and the TDR market value. The costs of the development are based on known costs based on my experience of undertaking these developments, e.g. 95 Jericho Rd. These vary based on the number of hectares that need to be planted for each option and the value of the farmers land used to create the title and the re-vegetation area (which is a huge variable as its location/soil type/contour specific).

- 13) The farmer has a financial loss of lost farmland that is converted to bush or wetlands, this is an ongoing loss (lost income) so it is very important they are compensated for this in the form of a realizing a price per hectare (as a lifestyle lot) that is higher than its existing value plus the cost of development. It is normal practice that farmers completing this type of development would take any profit from the sale of a new title and put this back into new technology on farm, reduce debt or diversify their investment base so that their existing farm systems are financially stronger for the future.

- 14) From an Environmental point of view the key is that all farms in the Waikato Region can equally participate in this incentive process over 10-20 years as the region and demand grows. Even if a profit is not able to be made, the method in the relief being sought will at least reduce the losses from undertaking the enhancement work, motivated either by the good stewardship of the farmer, and/or the force of regulation (e.g. to meet water quality standards).

- 15) There will need to be sound future planning to cater for the production of the TDRs, making sure that this market remains fluid so that farmers in the outer regions have the ability to reduce their financial risk as quickly as possible. The better this is managed then the faster we will be able to restore our natural ecosystems, slowing down environmental damage and the sooner that bankers will have confidence to finance this type of investment.

- 16) The option we have presented in our submission to the Proposed Waikato District Plan, is a “win win” for all parties, with the environment and our future generations reaping the most benefit.

Attachments: Bare Lifestyle Lot & TDR Creation Economic Analysis

WDC Title Development Analysis	Development of a new title for an Area (ha)	Average Waikato Bare Lifestyle Block			
		Natural Reg 10	Wetland 1	Bush 4	Riparian 2
Sell New Title developed on farm		\$350,000	\$350,000	\$350,000	\$350,000
less GST		\$45,652	\$45,652	\$45,652	\$45,652
Net Realisation		\$304,348	\$304,348	\$304,348	\$304,348
less Agent Fee's @ 3.5%		\$10,652	\$10,652	\$10,652	\$10,652
less legal		\$3,000	\$3,000	\$3,000	\$3,000
Net Realisation/title		\$290,696	\$290,696	\$290,696	\$290,696
Profit/Risk Factor (%)	25	\$58,139	\$58,139	\$58,139	\$58,139
Outlay		\$232,557	\$232,557	\$232,557	\$232,557
Less Development Costs (GST Ex.)					
Fencing	length (metres)	1264	400	800	565
Plants	no. per ha	0	8000	5250	6500
Plant Costs	per title	\$0	\$32,000	\$84,000	\$52,000
Consent & Title Costs	per title	\$35,000	\$35,000	\$35,000	\$35,000
Physical Works for Site Development (Power, Roading etc)	per title	\$47,500	\$52,500	\$57,500	\$52,500
Fencing Cost	per title	\$25,280	\$8,000	\$16,000	\$11,300
Costs per title		\$107,780	\$127,500	\$192,500	\$150,800
Costs/ha covenanted		\$10,778	\$127,500	\$48,125	\$75,400
Less Interest on Costs @ 3 years	4%	\$12,934	\$15,300	\$23,100	\$18,096
Value of Farm Land Lost to Development & New Title	Total	\$111,843	\$89,757	\$16,957	\$63,661
Farmland Values range from \$10,000-\$120,000/ha	Per ha value	\$10,168	\$44,878	\$3,391	\$21,220
Average Land Value/ha in region	Per ha	\$10,000	\$15,000	\$10,000	\$20,000
(Further Expense) or Profit for Farmer	Per ha	\$168	\$29,878	(\$6,609)	\$1,220
Revised Profit per new title	per title	\$59,982	\$117,896	\$25,096	\$61,800
Revised Profit Risk Factor		20.63%	40.56%	8.63%	21.26%
Note: If per ha values are below the farms per ha market value then this is a loss to the farmer					
This can be rectified by either reducing the area to be revegetated or increase the number of TDR on new titles					

WDC - Title Development Developer Analysis		Development of TDR in average Waikato Area			
		Natural Revegetation	Wetland	Bush	Riparian
		10	1	4	2
Area required for Revegetation	(ha)				
Income					
Sell TDR @ \$133,000 incl GST (adjust for No. of TDR's)	1	\$133,000	\$133,000	\$133,000	\$133,000
less GST		\$17,348	\$17,348	\$17,348	\$17,348
Net Realisation before Selling Expenses		\$115,652	\$115,652	\$115,652	\$115,652
less Agent Fee's 3.5%		\$4,048	\$4,048	\$4,048	\$4,048
less legal		\$3,000	\$3,000	\$3,000	\$3,000
Net Realisation/title		\$108,604	\$108,604	\$108,604	\$108,604
Profit/Risk Factor (%)	25	\$21,721	\$21,721	\$21,721	\$21,721
Outlay		\$86,883	\$86,883	\$86,883	\$86,883
Less Development Costs (GST Ex.)					
Fencing	<i>length (m)</i>	1264	400	800	565
Plants	<i>no. per ha</i>	0	8000	5250	6500
Plant Costs	<i>per title</i>	\$0	\$32,000	\$84,000	\$52,000
Consent & Title Costs	<i>per title</i>	\$35,000	\$35,000	\$35,000	\$35,000
Physical Works for Site Development (not required for TDR)	<i>per title</i>	\$0	\$0	\$0	\$0
Fencing Cost	<i>per title</i>	\$25,280	\$8,000	\$16,000	\$11,300
Costs per title		\$60,280	\$75,000	\$135,000	\$98,300
<i>Costs/ha covenanted</i>		<i>\$6,028</i>	<i>\$75,000</i>	<i>\$33,750</i>	<i>\$49,150</i>
Less Interest on Costs 3 years	4%	\$7,234	\$9,000	\$16,200	\$11,796
Value of Farm Land Lost to Development	Total	\$19,370	\$2,883	(\$64,317)	(\$23,213)
(Farmland Values range from \$10,000-\$120,000/ha)	Per ha	\$1,761	\$1,442	(\$12,863)	(\$7,738)
Average Land Value/ha in region	Per ha	\$10,000	\$15,000	\$10,000	\$20,000
(Further Expense) or profit for farmer	Per ha	(\$8,239)	(\$13,558)	(\$22,863)	(\$27,738)
Revised Profit per new title	per title	(\$60,670)	\$8,163	(\$69,732)	(\$33,754)
Revised Profit Risk Factor		-55.86%	7.52%	-64.21%	-31.08%
Note: if per ha values are below the farms per ha market value then this is a loss to the farmer					
This can be rectified by either reducing the area to be revegetated or increase the number to TDR or new titles					