

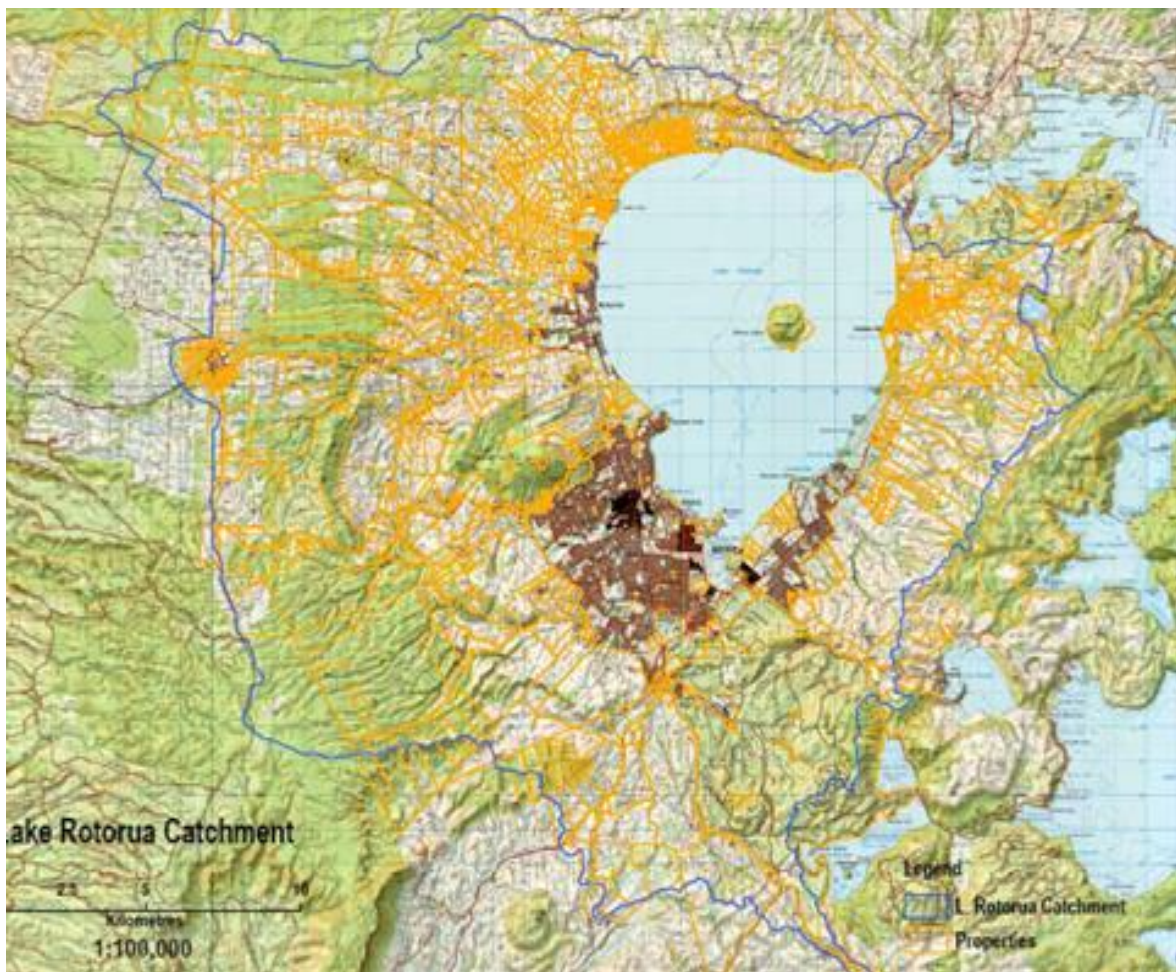
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## TRANSFERABLE DEVELOPMENT RIGHTS AN OPPORTUNITY TO ASSIST IN RESHAPING THE ROTORUA CATCHMENT

**Don Atkinson**

*Don is on the committee of LWQS and has been involved in advocating land use change for a number of years. He is a member of StAG which is advising BOPRC on the rules and incentive programme for the Rotorua Catchment. For 20 years he had a valuation practice in Whakatane specialising in rural and forestry valuations and land classification. He is also actively involved in a family dairy farm.*

It is interesting to listen to Todd's points. Clearly there are some challenges that he has laid down for us, particularly the one of working together and tying dollars to that. Our challenge today is the opportunity to reshape the Rotorua catchment. It certainly needs to happen, but in a sensitive way, one that retains the agricultural base of this community and allows change that enhances the whole community. A poorer rural community will be a poorer district. We must be very conscious of that and be innovative in how we approach it.



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## What are TDRs and why are they important?

- Between  $\frac{1}{3}$  to  $\frac{1}{2}$  of pastoral area must change land use
- Nutrient Reduction is expensive - at least \$90m
  - \$45.5m potential
  - Supplement with TDRs
  - Farmers and landowners bear cost
  - Community impacted
- Target at least \$20m from TDRs
- What is the cost of failure????

TDRs are included in the Proposed District Plan. My first public proposal in respect to TDRs was back in 2007. The District Plan has not been revised since and this is our first opportunity to address it. It has taken a long time to come around but the opportunity is now here.

The District Plan is governed by the Regional Policy Statement (RPS) and has to take account of the fact that the RPS now requires the reduction in nutrients entering Lake Rotorua to 435 tonnes of nitrogen annually. There is no getting away from that, Council have got similar responsibilities to us in achieving this.

The required reduction from agriculture is 270t/N/yr. 70% must be achieved in 10 years and the balance in 20 years. This is a big ask because the nutrients from pastoral farming have to be halved. Best farm practices cannot achieve that by themselves. They will get between half to two thirds of the reduction and a greater amount if there is investment in farming infrastructure. To achieve the remaining reductions required a third to half of all pastoral land must change its use. However, we must be innovative in how that change occurs. I do not think anyone wants to see a large amount of farmland in the catchment committed to a single species, radiata pine. That would not be a good outcome.

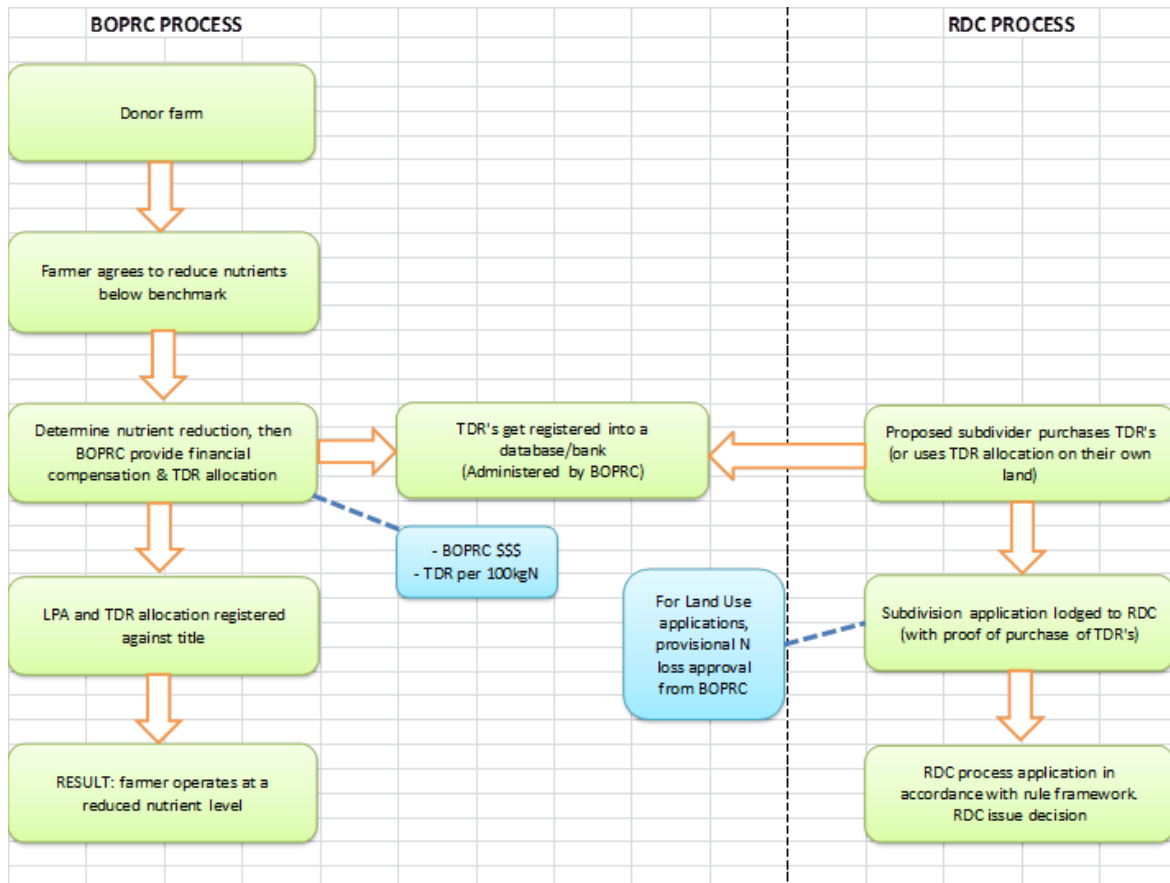
### **Nutrient reduction is expensive**

Several studies have looked at the potential loss in value from the agricultural sector, suggesting it is about \$90 million. These are dollars that the rural community potentially stands to lose if we cannot be innovative and create value from the opportunities that arise. There is \$45½ million in central government and local body funding to assist in that process, which gets us half way there. But there is still a big gap for any community to take on the nose. We are attempting to address this by creating capital through the process of subdivision. Our target is to raise \$20 million from TDRs. That may be 1,000 TDRs at about \$20,000 each, less than that achieved in the Western Bay of Plenty District.

## What is the cost of failure?

We know the rules are going to come but if we do not create a productive catchment our whole community will be impacted.

## Transferable Development Flow Chart



Slide 2

**Slide 2** shows what a TDR process might look like and how it happens. On the donor farm somewhere in the catchment the farmer agrees to reduce their nutrients below the benchmark through land use change. That benchmark is established in a best farm practice situation. The farmer goes to the Regional Council and commits to the reduce nutrients process. In that committal covenants will be registered against the farm title. A consent will be issued providing a Nutrient Discharge Allowance (NDA) that will require the farm to be utilised at the agreed level. The TDRs will be issued in accordance with the rules and are the property of that farmer who is free to sell them or retain them for later use. These TDRs should be held on a register, available to all, be transparent and have well understood rights of subdivision.

The farmer will be eligible for additional payments from the Incentive Scheme.

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The sub-divider on the other side, wanting an opportunity to develop a property, needs to purchase those TDRs. It will be a market transaction; a vendor/purchaser situation, willing buyer and willing seller. The market will set that price underpinned by nutrient trading rights. I believe there will be a base price probably around \$20,000. The sub-divider will then apply to Rotorua District Council, TDR in hand, and providing the Council criteria is met, the sub-division would be granted. This could also happen if it was the donor property, they are not mutually exclusive.

### **A Sheep and Beef Farm**

- Farm
  - 180Ha Steeper hill
  - 20Ha Undulating
  - Benchmarked at 18kg/ha
- Convert Hills to Forestry
- Retain pasture around homestead
- TDR Assessment - N
  - BFP 13Kg/ha
  - Revised NDA 4kg/ha
  - Reduction  $9\text{kg} \times 180 = 1620\text{Kg N}$
  - At 100kg N/TDR
  - 16 TDRs issued
  - Title Covenanted
- Lodge TDRs on Register for Sale

In a practical example of a sheep and beef farm with 180 hectares of steeper hill country and 20 hectares of undulating country, the current benchmark is say 18 kilograms per hectare. Do not worry too much about the numbers, but assume that the farmer's desire is to convert the hills to forestry. Hopefully there is more opportunity on such a farm than forestry, multiple cultures, perhaps some bike riding tracks. There was a great example recently on Country Calendar in the Western Bays showing the diversity that can come through a forested rural farm utilising bike and walking tracks.

Let us assume that best farm practice is 13 kg/ha, a number that is still to be set. Putting it into forestry would take this rural block down to 4 kg/ha, a reduction of 9 kg/ha over the 180 hectares which is 1,620 kilograms of nitrogen. If, and I say if, a figure of 100 kg of nitrogen is set per TDR, that would equate to 16 TDRs. The title would be covenanted to ensure that the reductions in nutrients is achieved. The farmer lodges the TDRs for sale and hopes that a developer will come along and buy them.

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## The Developer

- Block
  - 20ha in premium location
  - Rural Zones or R4 Lakeside Settlement Zone
  - Subdivide into 10 lots
- Required to purchase 10 TDRs
- Discretionary ( Restricted) Right to subdivided for residential/rural purpose or theme development
- Service provided
- Risk taker –
  - Outlay the \$ and make it happen
  - Minimising risk through certainty
- Opportunity to farm people instead of animals

The developer has 20 hectares of premium land, nice location in the rural zone or in a lake side settlement zone, wanting to subdivide it into, say, 10 lots. To undertake that subdivision the developer would be required to purchase 10 TDRs. This is the crucial issue and one needs to understand the consequences of it.

Historically everyone has had the right to subdivide their property given they can meet Council required criteria. The proposal here is that the requirement to surrender a TDR is the only way that one can subdivide property. This exclusivity is what will guarantee the \$20m. Conventional subdivision would undercut and undermine the value of TDRs. This would be ground breaking, I accept that, but if we are going to generate the cash that we want and have a community that is not damaged as a result of restoring the lake, we need to be creative. Where TDRs can be utilised and what associated conditions will apply, will be critical in establishing their worth.

The developer is the risk taker; buying the land, buying the TDRs, providing the services and then waiting - waiting for a buyer to come along with the cash to realise his investment. The biggest risk in developments is one of uncertainty. If we can provide certainty of subdivision through the TDR process, thereby removing this risk, we will add value to the TDR proposition. This should act as a stimulus to development.

### **Maori land**

Maori land is a significant issue in our catchment. Maori are the largest farmers and collectively the largest owners in the catchment. They have corporations with highly productive dairy and pastoral farming. On the other hand the Maori Trustee administers numerous multiple ownership blocks which are lower producing.

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## Workshops

There are two workshop sessions during the day and a number of key questions which we need to explore and discuss.

### Morning Session

- Where should the Donor and Recipient be located
  - Which Catchments
  - Restrict or Restrictive Discretionary - conditions
- What is eligible
  - Land use change
  - Land management change
- Quantity assessment of TDRs
  - How many kg per TDR
  - What benchmark
  - Who does the assessment
  - How does that impact on value
- How can Maori Land benefit from TDRs
  - Change in land use
  - Forestry
  - Lakeside sections
    - Freehold
    - Leasehold

### Afternoon Session

- Where is the market
  - New opportunities
  - Inclusion of the catchment and Rotoiti
- How is the price set
  - Market
  - BOPRC
  - Underpinning alternative
- Nutrient reduction required per TDR
  - How many Kg for each TDR
    - ✦ 100 or 500Kg N
  - What impact \$\$\$\$\$
- Who administers the TDRs
  - RDC, BOPRC or Independent
  - Register or Direct
- How is this registered against the title

A challenging day. We have a major opportunity in front of us and I do hope that we are prepared to take that opportunity.