

yass valley council

the country the people

Yass Valley – Rural Lands Planning Proposal

Independent review



16 June 2014



This Report has been prepared for:



This Report has been prepared by:



BOOTH ASSOCIATES are a regionally based consultancy with a strong background in agriculture and water. With over 30 years of experience, our team provides services to farmers, developers and councils.

Key Contact: Bill Booth - Both Associates Level 1 / 61 – 63 Yambil Street GRIFFITH NSW 2680 P: +61 2 6964 9911 E: b.booth@boothassociates.com.au



EDM Group is a multi-disciplinary firm of consulting planners, surveyors, engineers, building designers, project managers and environmental managers that provides services to the private and public sectors. .

Key Contact: Peter O'Dwyer FPIA CPP- EDM Group PO Box 317 WODONGA Vic 3689 P: +61 2 6057 8578 E: podwyer@edmgrou.com.au



MainStream Economics and Policy consultancy provides research, economics, planning and policy analysis, evaluation, strategy and business advice for the natural and built environments.

Key Contact: Jim Binney- MainStream Economics and Policy PO Box 13048 George St. BRISBANE Qld 4003 P: +61 407 032 552 E: jim@mainstreameco.com.au

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1 Introduction and background

Establishing an appropriate minimum lot size for rural lands within the Yass Valley LGA has been an ongoing strategic planning issue for Yass Valley Council over the past decade. In order to assist in resolving this issue Yass Valley Council at its meeting of 28 September 2011 resolved that:

(a) A Council Committee be formed under Section 355 of the Local Government Act (1993) and delegated powers under Section 377 of the Local Government Act (1993).

The key purpose of this Committee was to provide advice to Council on a number of aspects of Rural Lands Planning. As a direct outcome of that process the subject Rural Lands Planning Proposal was prepared by Council relying largely on the basis of recommendations and a submission prepared by the Committee.

The Rural Lands Planning Proposal was subsequently forwarded to the Department of Planning and Infrastructure and a Gateway Determination was issued in October 2013. As part of its consideration of the Planning Proposal, the Department of Planning and Infrastructure prepared a number of reports. One outcome of this process was a recommendation from the Department that a peer review should be undertaken as:

- *The Department is of the opinion that “the s355 Committee report is not considered to be a thorough consideration of all relevant issues”; and*
- *A peer review “protects the planning proposal against any perceptions of pecuniary interests that may arise from the report of the Committee”.*

Specifically, in relation to point one above both the Regional Planning Team and the LEP Review Panel are of the opinion that further work is required to adequately demonstrate consistency or justify any inconsistency with:

- Section 117 Direction – 1.2 Rural Zones
- Section 117 Direction – 1.5 Rural Zones
- Section 117 Direction – 5.1 Implementation of Regional Strategies
- State Environmental Planning Policy (Rural Lands) 2008
- Sydney-Canberra Corridor Regional Strategy

At its meeting of 27 November 2013 Yass Valley Council subsequently resolved:

1. That prior to consultation with the community, Council arranges a peer review of the report prepared by the Yass Rural Lands Planning Committee by a suitably qualified and independent consultant.

2. The purpose of the peer review is to examine the consistency of the report with section 117 Directions 1.2 Rural Zones, 1.5 Rural Lands, 5.1 Regional Strategies and SEPP (Rural Lands) 2008.

3. The outcomes of the peer review are to be publicly exhibited with the Planning Proposal and the Committee’s report.

1.1 Planning Background

Prior to the Yass Valley LEP 2013, subdivision of rural land was able to occur under:

- Clause 11 - Yass Valley LEP 2013 1987;
- Clauses 18 & 19 – Yarrawlumla LEP 2002; or
- Clauses 11, 12 & 13 – Gunning LEP 1997.

Each of these LEP's specified an average lot size of 80 ha, however the subdivision and rural dwelling entitlement requirements of each LEP varied.

Prior to the gazettal of these environmental planning instruments, minimum lot sizes were determined in accordance with the following.

- Shire of Goodradigbee Interim Development Order (IDO) No.1 (1966). Under the former IDO provisions non-urban zones 1(a) and 1(b) had a minimum subdivision lot size of 40 acres (16 ha) where the intended use of the allotment/s was for a 'country dwelling'. The subsequent Yass Local Environmental Plan No.1 (1981) stipulated a minimum subdivision lot size of 40 ha, which was later increased to 80 ha under the provisions of the Yass Valley LEP 2013 1987.
- Shire of Yarrawlumla Interim Development Order No.1 (1964), Under the provisions of this former IDO the minimum subdivision lot size for land within non-urban zones 1(a) and 1(b) was 50 acres (20 ha) where the intended use of the allotment was for a 'country dwelling'. Subsequent amendments to the IDO changed the minimum lot size to 40 ha before the Yarrawlumla LEP 1986 set an 80 ha minimum lot size for land in the 1 (a) Rural Zone. The Yarrawlumla LEP 1993 maintained the 80 ha minimum lot size but introduced lot averaging provisions.
- Gunning Local Environmental Plan No.1 (1981). Under the provisions of the LEP the minimum subdivision lot size for land zoned 1(a) and 1(b) was 80 ha. This minimum lot size was later carried forward into the Gunning LEP 1997. Yass Valley Council has no records pertaining to the rural minimum lot size of land in the former Gunning Local Government Area prior to 1981.

As part of the strategic background work that led to the introduction of the Yass Valley LEP 2013 2013 a draft *Non Urban Lands Study* was prepared by GHD (2009). This work provided two options with respect to recommended minimum lot sizes, namely Option 1 in respect of retention of an 80 ha minimum lot size and Option 2 which recommended 300ha in the northern and western parts of the LGA, 80 ha in the east and 16 ha in Wallaroo. The general community response following subsequent public consultation was however largely dismissive of these options particularly Option 2. Submissions were otherwise supportive for retention of rural lot averaging with no clear consensus for a minimum lot size for rural land.

In November 2010, the (then) Planning Minister subsequently advised that Council should apply the 80 ha minimum lot size as an interim measure, to allow the draft LEP to be finalised as a priority.

1.2 Rural Lands Planning Proposal

The Yass Valley Rural Lands Planning Proposal seeks to lower the minimum lot size across the Yass Valley LGA in the RU1 Primary Production and RU2 Rural Landscape zones from 80 ha with lot averaging to 40 ha with lot averaging.

It is intended that the proposed outcome will be achieved by:

- Amending the Yass Valley LEP 2013 Lot Size Map for all RU1 and RU2 land from 80 ha (AC) to 40 ha (AB5).
- Amending Section 3 of Clause 4.1B Subdivision using average lot sizes to read -

Despite clause 4.1, development consent may be granted to subdivide land in Zone RU1 Primary Production and Zone RU2 Rural Landscape if:

(a) the average size of all of the lots created will be not less than 40 ha; and

(b) none of the lots created will have an area of less than 20 ha; and

(c) none of the lots created as part of the averaging process will have an area of greater than 70 ha.

1.3 Yass Valley Rural Lands Committee

The report “*Enhancing the sustainable development of rural land in the Yass valley Local Government Area*” prepared by a Section 355 Committee of the Yass Valley Council (2012) has largely been relied upon by Council as the basis for the current Planning Proposal.

The following extracts from the s355 Yass Valley Rural Lands Committee report largely sum up the conclusions reached by the Committee.

“The Yass Valley LGA is one of the fastest growing rural areas in New South Wales. But this growth is not driven by favourable developments in agriculture; it is a result of the rapid growth of population and incomes of the adjoining National Capital – Canberra. The Yass Valley LGA makes up roughly 70 per cent of the Canberra sub-region.

Simply put, there is not enough flexibility in the current planning rules and system to effectively manage the sustainable development of rural land in the LGA. This review examines the best way to overcome these obstacles and recommends a way forward.

There is nothing the Council or the NSW Government can or should do to stop Canberra’s growth, so the demand for small farm lots will continue to rise. The 80 ha rule, which has not changed for over 30 years, restricts the supply of small farm lots, drives up the price of existing lots, increases pressure for ad hoc spot rezoning proposals and increases the opportunity cost of farmers staying in business. Moreover, up until now, the lack of flexibility in applying the minimum lot size rule means issues such as preserving the best agricultural land for the best use, and issues of topography and aspect, cannot be fully addressed in the assessment process.

As a result of this process it has been found that reducing the minimum lot size from 80 ha to 40 ha combined with an “averaging” methodology would enhance sustainable development in the Yass Valley LGA. These changes work “hand-in-glove” and together increase choice and flexibility, and better allow the right land to be used for the best use. It minimises land use conflicts, protects large lot sizes where appropriate, minimises fragmentation of agriculturally productive land and

leaves all interested parties better off because choice does not have to be exercised. The change to a smaller lot size is consistent with the Sydney – Canberra regional strategy that also seeks sustainable development.

Rural land use planning has a vital role in securing the sustainable development of the Yass Valley. Over the last 30 years, pressures on land use, technology, awareness of the environment and human needs have changed. But what has not changed for 30 years is the primary planning instrument to secure sustainable development, namely minimum lot sizes for rural subdivision and the methodology in the way those minimums are applied to potential subdivisions.

The focus of this assessment is the impact of minimum lot sizes and the methodology of applying that minimum to the potential subdivision of rural land. The overriding criteria is how these aspects of rural land use planning currently affect the sustainable development of rural land in the Yass Valley LGA and what changes could be made to enhance sustainable development in the future.

1.4 Gateway Determination

Council at its meeting of 28 August 2013 resolved that:

“Rural Lands Planning Proposal PP-2012-01 be endorsed and forwarded to the Minister to request a Gateway Determination pursuant to Section 56 of the Environmental Planning and Assessment Act 1979.”

The Rural Lands Planning Proposal was forwarded to the Department of Planning and Infrastructure on 2 September 2013.

As part of its consideration of Planning Proposal PP-2012-01, the Department of Planning and Infrastructure prepared a number of reports. A summary of the Department's position in relation to the Planning Proposal is published on the NSW Department of Planning and Infrastructure LEP Tracking System, which is located on the Department's webpage. Among other things it was noted by the Department in its assessment:

“The Yass Valley Rural Lands Committee has devised the proposed changes to the rural subdivision controls as a means of encouraging the diversification of agricultural activity and the freeing up of planning restrictions on farmers to encourage sustainable growth in the sector.

While these are appropriate and admirable objectives, there is a concern that the proposal is contrary to the Rural Planning Principles in the Rural Lands SEPP. Alternative means of allowing new agricultural pursuits and creating capital for farmers should be investigated before a final decision is made on the change proposed by the Council.

Although not agreeing with the conclusions and recommendations of the Council's Rural Lands Committee, there is no compelling reason why the State should not allow the proposal to at least proceed to exhibition so the issues and countervailing viewpoints can be debated.

However, Council should be encouraged to ensure that the report of the Rural Lands Committee is peer reviewed, as this allows for the consideration of the alternative options suggested by the Department, as well as protects the planning proposal against any perceptions of pecuniary interests that may arise from the report of the Committee.”

More detailed information in relation to the Department's Assessment of the proposal is available on the Department's webpage.

Notwithstanding the above comments a Gateway Determination in relation to Rural Lands Planning Proposal PP-2012-01 was subsequently issued by the Acting Deputy Director General (on behalf of the NSW Minister for Planning and Infrastructure) on 25 October 2013 (Appendix 1). Significantly also the Yass Valley Council was authorised to exercise the delegation of the Minister for Planning and Infrastructure under s59 of the EP&A Act in relation to the Planning Proposal.

1.5 Independent Review Panel

An Independent Review Panel was subsequently established pursuant to Section 23I – *Independent hearing and assessment panels* of the Environmental Planning and Assessment Act 1979. Panel members were selected to provide expert opinion across the following areas of expertise:

- NSW Rural Planning
- Agricultural and/or Environmental Science
- Rural Land Economics

1.6 Strategic Planning Documents

The key charter of the Independent Review Panel is to focus on the consistency of the Yass Valley Rural Lands Planning Proposal with nominated strategic planning documents, namely Section 117 Directions; State Environmental Planning Policy (Rural Lands) 2008 and Sydney Canberra Corridor Regional Strategy.

1.6.1 Section 117 Directions

Relevant to this Peer Review is consideration of the following Section 117 Directions

- 1.2 Rural Zones
- 1.5 Rural Lands
- 5.1 Implementation of Regional Strategies

1.6.2 State Environmental Planning Policy (Rural Lands) 2008

The relevant Rural Planning Principles of the SEPP are as follows:

(a) the promotion and protection of opportunities for current and potential productive and sustainable economic activities in rural areas,

(b) recognition of the importance of rural lands and agriculture and the changing nature of agriculture and of trends, demands and issues in agriculture in the area, region or State,

(c) recognition of the significance of rural land uses to the State and rural communities, including the social and economic benefits of rural land use and development,

(d) in planning for rural lands, to balance the social, economic and environmental interests of the community,

(e) the identification and protection of natural resources, having regard to maintaining biodiversity, the protection of native vegetation, the importance of water resources and avoiding constrained land,

(f) the provision of opportunities for rural lifestyle, settlement and housing that contribute to the social and economic welfare of rural communities,

(g) the consideration of impacts on services and infrastructure and appropriate location when providing for rural housing,

(h) ensuring consistency with any applicable regional strategy of the Department of Planning or any applicable local strategy endorsed by the Director-General.

The relevant Rural Subdivision Principles of the SEPP are as follows:

(a) the minimisation of rural land fragmentation,

(b) the minimisation of rural land use conflicts, particularly between residential land uses and other rural land uses,

(c) the consideration of the nature of existing agricultural holdings and the existing and planned future supply of rural residential land when considering lot sizes for rural lands,

(d) the consideration of the natural and physical constraints and opportunities of land,

(e) ensuring that planning for dwelling opportunities takes account of those constraints.

1.6.3 Sydney-Canberra Corridor Regional Strategy

The Sydney–Canberra Corridor Regional Strategy was prepared by the then Department of Planning in 2008 and applies to the local government areas of Goulburn Mulwaree, Palerang, Queanbeyan, Upper Lachlan, Wingecarribee and Yass Valley. The primary purposes of the Regional Strategy include seeking to

“... accommodate and manage growth while ensuring that the rural landscapes and environmental settings that define the Region’s character are not compromised. It will do this by ensuring that land is available and appropriately located to sustainably accommodate the projected population growth and associated housing, employment and environmental needs over the period until 2031. The Strategy acknowledges the importance of a coordinated approach to settlement, whilst taking into account demand for different types of housing and the adequacy of supply.”

Relevant to this Peer Review is consideration of the following components of the regional Strategy:

- Regional Challenges
- Rural Lands and Primary Industry
- Economic Development and Employment

1.7 Our approach

Notwithstanding the relatively limited nature of the review against the nominated Strategic Planning Documents outlined above it became quickly apparent that a more considered analysis of the rural landscape of the Yass Valley LGA was required. The purpose of such an analysis is to provide a more robust basis to understand the strategic implications of the Planning Proposal and ultimately consistency against the nominated planning provisions. As a consequence the approach adopted has been to also prepare the following review and commentary in respect of relevant:

- planning issues including a comprehensive literature review to understand the dynamics at play across the LGA;
- resource and agricultural management Issues, including; and
- economic issues.

2 Planning Issues

2.1 Introduction

To provide an opinion as to the consistency of the Planning Proposal against relevant s117 Directions, SEPP provisions and Regional Strategy it is important to firstly understand and analyse the basis for justification of the Planning Proposal. That is, it is not enough to simply consider the Planning Proposal at face value, rather a thorough understanding of the strategic basis that purports to lend support to a reduction in minimum lot size is demanded.

As will be outlined in some detail, not only within this chapter of the Independent Review Report, but also the Resource /Agricultural Land Management and Economic Chapters, such an analysis firstly leads to a conclusion that the basis of support as argued by the s355 Committee is at best flawed. In this regard it would appear that issues raised by the Department of Planning and Infrastructure as noted above at Section 2.4 may have some merit.

In plain English, it is apparent that the basic premise of the s355 Committee Report goes something like this:

1. Yass Valley LGA has been subject to massive change largely unrelated to large scale farming.
2. The goal for rural landuse planning within the Yass Valley LGA should focus on sustainable development [that is in other words “*rural lifestyle development*”].
3. The existing planning rules restrict the attainment of this goal.

Central to the above premise is the often repeated contention that the dominant trend across all Australian agriculture is that farm sizes are getting bigger not smaller. This lends weight to the mantra “Get Big or Get Out”.

There appear to be two fundamental problems with the above however. Firstly, while support for so called “sustainable development” may well be a legitimate point of view, it actually is a line of argument that largely runs counter to the s117 Directions and SEPP principles, and does not provide a proper basis of support for amendment of the minimum lot size provisions of the RU1 and RU2 zones.

Secondly, the opinion that rural lifestyle development should be supported because farm sizes are getting bigger is at best a particularly confusing proposition.

These matters will be discussed further below.

Notwithstanding the above however, a closer investigation of the rural sector within the Yass Valley LGA leads to a rather interesting position whereby the Planning Proposal to reduce minimum lot sizes with an averaging provisions is supported, but for different reasons than relied upon to date. That is, it is apparent from closer analysis of the rural sector across Yass Valley LGA that land use planning decisions have been in the past (and continue to be) shaped by the tensions associated with the forces impacting upon the farming sector including among other things:- rural demographic change; compressed terms of trade; reliance on off-farm income; climate variability; fuel prices; and water availability.

Coupled with this is a constant lifestyle related demand within the amenity landscape of the LGA.

In this respect it is evident that there are two broad landscape types across the Yass Valley LGA, namely:

- **Peri-urban Yass** (essentially transitional rural land within the eastern sector of the LGA that is also located within 30 – 40 minutes travel / commute of Canberra.) This landscape comprises the interface between Yass and Canberra and comprises a mix of fragmented rural holdings and/or is land constrained significantly by rural lifestyle landuses. This landscape also includes a significant proportion of ‘small farms’ many of which operate at sub-commercial levels.
- **Production Yass** (predominantly rural land holdings over 500ha in the north western [ie Binalong / Bookham / Tangmangaroo districts] and south western [ie Wee Jasper / The Mullion districts] sections of the LGA. These areas are situated beyond the 40 min commute contour of Canberra).

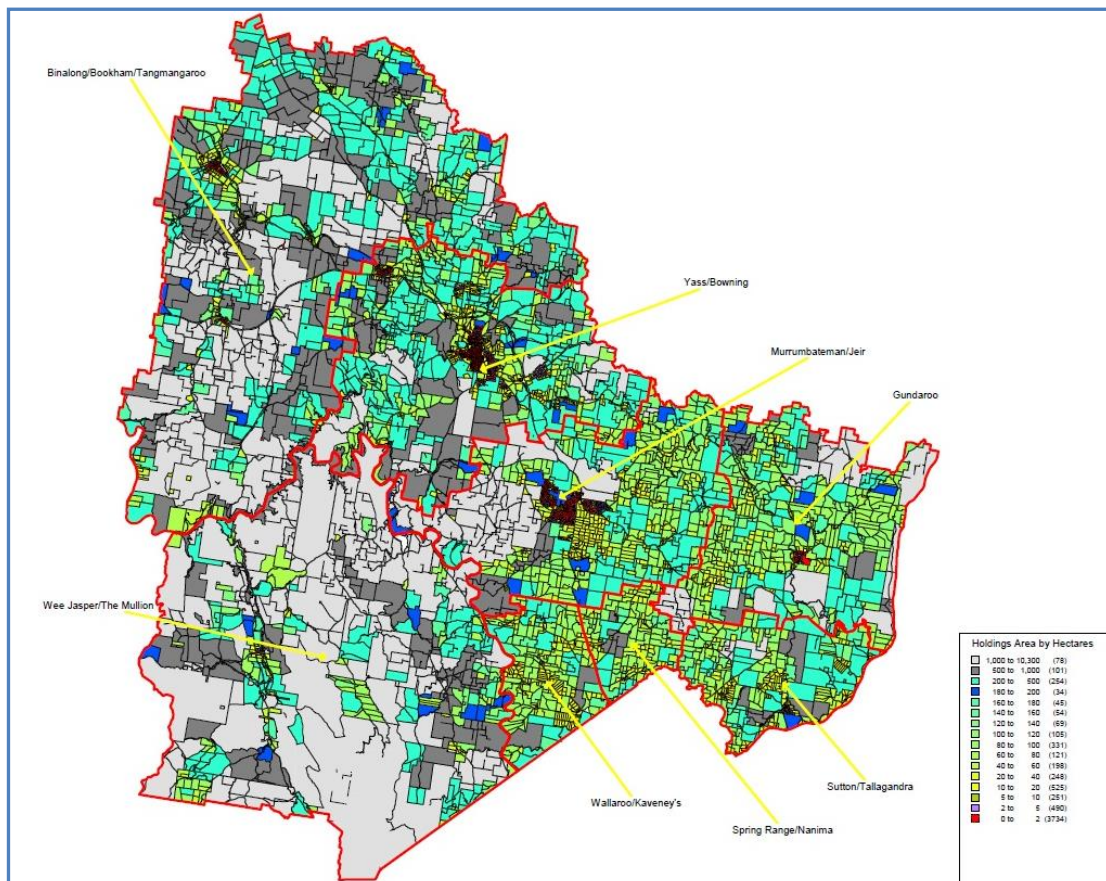


Figure 1: Yass Valley LGA – Localities and area of Holdings (Ha)

As a consequence a key conclusion of this Review is that there is a need to support evidence based landuse planning decisions across the freehold areas of the Yass Valley LGA. That is, the analysis reveals that there is strong evidence to suggest that continued reliance on a ‘one-size-fit-all approach’ to rural landuse planning across the Yass Valley LGA would be inappropriate. Rather, relying on an evidence based approach that acknowledges and responds to a multifunctional landscape would instead lead to a conclusion that better landuse decision making consistent with State policy and direction can be achieved that caters for desired outcomes in different areas of the LGA.

The following Planning Chapter will touch on changes in the Australian rural landscape in general with the literature review and discussion to be read against the context of the Resource / Agriculture and Economic Chapters. As a whole this Review Report will discuss in some detail the existing trends of production across Yass Valley LGA and the drivers for change including the undue influence on the rural sector as a direct consequence of the proximity to Canberra.

It should also be noted that while the reduction in minimum lot sizes across the Yass Valley LGA is considered justifiable, this should not be necessarily relied upon by neighbouring LGA's as relevant to their circumstances. The following analysis is focused on the Yass Valley LGA only.

2.2 Structural Change

2.2.1 Evolving Peri-urban Landscapes

Peri-urban landscapes are those areas on the periphery of metropolitan as well as rural and regional cities into which the urban area expands and/or which cities influence. In many countries including Australia they are among the fastest growing regions. In the Australian context they frequently extend 100kms beyond the suburban edge.

It is these 'frontier regions' between urban, peri-urban and rural activity that are continuing to blur and merge creating opportunities as well as risks. Budge (2013) discusses this transformation of peri-urban landscapes across rural Australia highlighting social, community and cultural changes that have occurred in many towns in peri-urban areas. Low Choy *et al* (2007) describes a new peri-urban landscape where the contemporary landowners who are now managing (or non-managing) land can be categorised across four broad groups:

The Seekers: those seeking a change or alternative lifestyle (eg Alternative lifestyle seekers, Tree / Sea changers; Religious communities);

The Survivors: those who have adapted or who have shown initiative to survive the negative aspects of urbanisation (eg DIY Home builders; the Horse community, Owners of truck and other heavy machinery; Adaptive farmers);

The Speculators: those who have taken advantage of the opportunities presented by peri-urbanisation and growth in the region (eg Developers & Real Estate Agents; Tourism – Recreational providers, Farm Stays & Retreats; Boutique Farmers – including vineyards, herbs, olives, lavender & essential oils; Landscape industry; Equine industry; Pet industry); and

The Strugglers: those who struggle with the peri-urban changes (eg Holding-on farmers - typically individuals or families who have resided on the land for generations and have well established land management skills).

Argent *et al* (2011) discusses the issue of amenity-led migration into rural Australia while Butt & Fish (2013) highlight a range of processes that emerge from the literature and empirical work including impacts on landuse from those who seek to purchase an accessible rural lifestyle. They refer to a "displaced suburbia" namely suburban growth performed beyond the fringe that is influenced by various factors including retiree mobility and 'welfare-led' migration, especially as a consequence of the high-cost Australian metropolitan housing market.

The challenge public sector planners and decision makers have in respect of peri-urban areas is to decide whether to try and understand and influence the type and extent of change within these regions or alternatively to simply allow market and other forces to determine the future. Houston (2013) reflects in part on such challenges discussing past (often failed) efforts to protect agricultural land in Australia's peri-urban regions.

Peri-urban areas are regions in transition. They have been described as being “*contested places*” with a wide range of uses, such as tourism and recreation, water catchments, mineral and stone extraction, forestry and productive farming. They also frequently offer special ambiance and lifestyle (La Trobe University 2013). They can also be areas that are vulnerable to bushfire and loss of biodiversity and vegetation (Buxton *et al* 2008) while their rapid growth can place burgeoning demands on health, transport and education services (La Trobe University 2013).

Buxton *et al* (2008) describes a range of strong “push” and “pull” factors that metropolitan areas exert on surrounding peri-urban areas. Within such regions it is noted that the boundaries between amenity landscapes (that is those areas where cash value per ha can be significantly enhanced due to residential values rather than farming values) and production landscape are not static.

Importantly within peri-urban localities across Australia the usual path to improving productivity, namely land purchase, is significantly constrained by high land prices.

As Barr (2009) notes:

“The speed of (the transformation of communities across agricultural Australia)” is accelerated by changing consumer behavior, and the tightening of the food supply chain that shifts foodstuffs from the farm to the supermarket. Overlaying this are the changing social values of our society as more of the population becomes interested in protecting the environment, the welfare of animals and in particular, owning their own patch of countryside. The influence of these social and economic forces varies across locations and between industries, creating a patchwork of new social landscapes across rural Australia.”

2.2.2 Spatial Concentration of Production

Contrary to the conclusions of the Yass Valley s355 Committee report perhaps a more complete conclusion would be one that acknowledges that Australian agriculture is actually characterised by a small number of large farms and a large number of small farms (eg Barr, 2000; Avery 2002).

Price & Goode (2009) for instance note from ABS surveys that 26% of Australian farm businesses operate with less than 50ha mainly in the farming of beef cattle, grapes, fruit and tree nuts, vegetables and horses. On the other hand operations of more than 2,499ha accounted for only 9% of all agricultural businesses mainly engaged in grazing or grain-growing operations.

This situation is certainly reflected across the Yass Valley LGA where the diversity of the farming sector ranges from 11 large farm holdings within the western area of the LGA that operate on over 2000ha to the other end of the spectrum where in excess of 440 small family and lifestyle farms in the east operate holdings of between 20 ha and 60Ha (Figure 2).

Rather then, it can be seen that the dynamics at play across the broader Yass Valley rural landscape are indeed a little more complex than that portrayed by the s355 Committee.

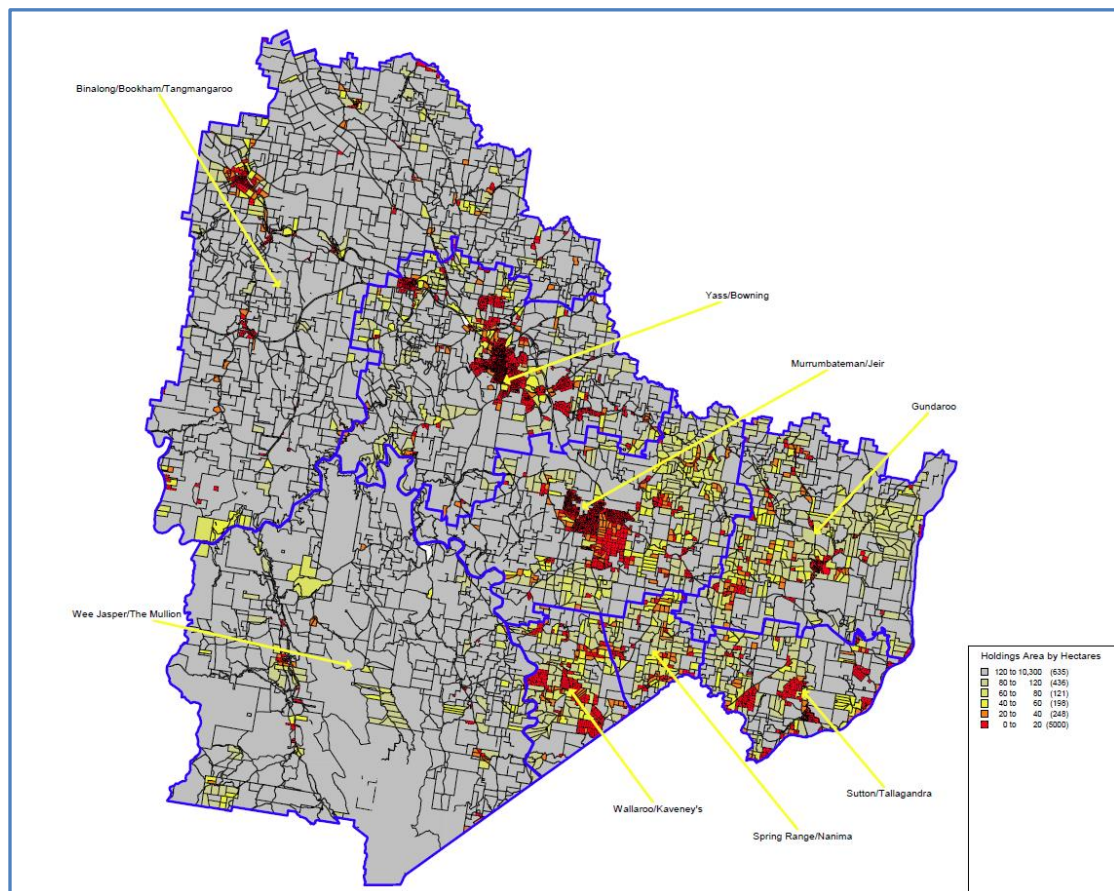


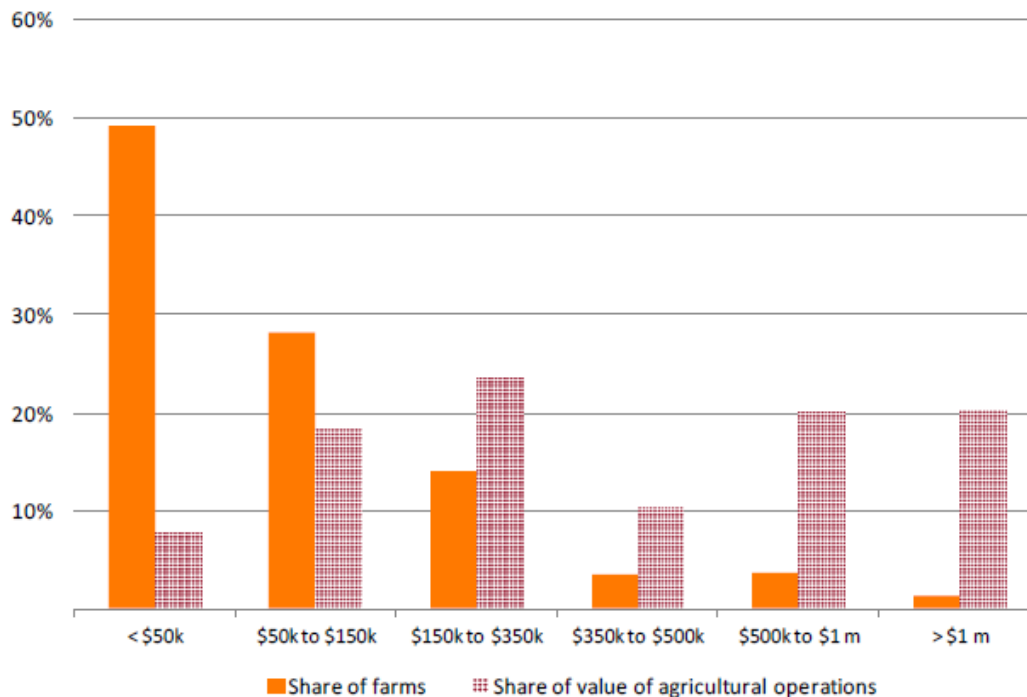
Figure 2: Yass Valley LGA – Area of Holdings (Ha)

Firstly it must be acknowledged that the high spatial concentration of economic returns to the natural resource base cannot be ignored. While most Australian farms are still predominantly based on family labour, it is the case that it is the larger farms that account for an overwhelming proportion of production. Across Australia around 1% of farm land produces around 80% of total net returns (Hajkowicz *et al*, 2003). Of this approximately 25% is produced in the peri-urban fringes of the five mainland states (Houston, 2003 & 2004).

In the Capital region (which includes Yass Valley LGA) Binks *et al* (2013a) notes that in 2010-11 around 49% of farms had an EVAO of less than \$50,000 (Figure 3). These farms only accounted for 8% of the total value of agricultural operations. In comparison, 9% of farms in the region had an EVAO of more than \$350,000 and accounted for an estimated 49% of the total value of agricultural operations,

Barr (2003) in highlighting this skewed distribution of farm income cites research to show an average annual decline of 1.5% in the number of farm establishments over recent years, with the contraction greatest in the most innovative industries. Barr (2003) goes on to cite the key statistics that:

- only the top one-third generate productivity gains greater than the compression in the terms of trade,
- as a rule only the top 20% generate an average positive return to capital,
- the top 5% have returns to capital double those of the next 15%.



Source: Australian Bureau of Statistics

Figure 3 Distribution of farms by estimated value of agricultural operations (EVAO), Capital region NSW 2010–11. This region includes Yass Valley LGA). (source Binks et al 2013a)

In the broadacre sector, it is the case that farms are actually becoming either larger or smaller (for example, land is being re-subdivided, sold or 'retired' from farming). With those farms getting bigger in size, growth has accelerated in recent years with the corporatisation of agriculture. This has seen a subsequent decline of family farm numbers across rural Australia, representing an ever-decreasing proportion of the farm population.

The following observations of AECOM (2011) are also of some relevance to this discussion.

Recent agricultural adjustment policy has largely assumed that if farmers and their families are not making an adequate living from farming, their rational, 'business-like' course of action might be to pursue alternative livelihoods. This means that rural people are often seen to be battling on despite what appears to be good business judgement. Despite this, it is clear there has always been an element of 'risk' or 'gamble' associated with farming in Australia, based on the belief there will always be a good season ahead. Within an industry and a lifestyle that has historically been subjected to droughts and flooding rains, and a full measure of everything in between, it is understandable to accept that there is a culture of 'defiant optimism' in farmers determined to continue farming and holding out hope for better seasonal and financial conditions.

The inevitable outcome of ongoing pressure of terms of trade is that the overall decline in the number of farms across Australia will continue and that these fewer large farms will produce more and more of the agricultural production of the country. As an excellent example of this Barr (2007) notes that in the past 25 years the volume of milk produced by Australian dairy farms has increased by 50% despite the

number of dairy cows remaining roughly the same and the number of dairy farmers decreasing by 80%.

However it is also clear from analysis of ABS data that rather than the spatial concentration of production and increase in size of large farms being at the expense of small farms, the case is instead that it is middle sized farms that are actually being increasingly squeezed out. Hollier *et al* (2002) makes a number of important observations why this is so:

- the higher capitalisation of smaller farms makes them less attractive purchases for farm expansion;
- location of many smaller farms in high amenity areas where land values are high in comparison with agricultural values;
- the high incidence of off-farm work on small farms result in reduced pressure for owners of poorly performing farm businesses to leave agriculture by selling the property.

Carroll (2005) also notes other pressures on mid-sized farms as including:

- the long run trend of declining terms of trade and the inability of many farmers to find offsetting productivity gains;
- changing climatic patterns and water availability issues;
- farm successions issues;
- the significant equity requirements of traditional farming enterprises

2.2.3 Get Big or Get Out?

So from the above it would seem that rather than leading to a reduction in the number of small farms, the catch cry “Get Big or Get Out”, referenced a number of times within the s355 Committee Report, has actually impacted most heavily upon middle ranked farms that are under the greatest commercial pressure.

While this mantra is still echoing today with an apparent big-business bias on many levels, Hooper *et al* (2002) questions whether to “Get Big or Get Out” is still appropriate for the 21st century. Hooper concludes that the emphasis has now in many instances shifted instead to “Get Smart” and that in many cases it can be ‘smart’ to get ‘big’.

It is also to be noted that sections of the wider agricultural sector are growing rapidly driven to a large extent by productivity improvements rather than “getting bigger”. That is to say, that land is not the only input into agricultural production and as land values increase, technology in a number of instances has adapted to reduce the importance of land as input. Such productivity gains give some credibility to the new catch cry “Half the farm - Double the production”.

Barr (2007) also highlights an opposing position that turns the traditional dictum on its head, namely – “Get Out or Get Small”. This is particularly evident in the amenity landscapes where the price of land is generally at higher values than broad acre farmers are prepared to pay.

Importantly it needs to be also recognised that the catch cry “Get Big or Get Out” is still largely focused on broad acre full time farming and that support for such a mantra continues to ignore the changing farm dynamic as noted above, including the growing small farm sector.

2.2.4 Small Farm Sector

What are the characteristics of a 'small farm'? In response, it is noted that Hollier & Reid (2007) provide the following useful discussion:

There is no typical small farm. Size criteria is linked to the ability to create viable household livelihoods, and this varies with the type of farming that is possible at any location, and the possibilities of combining farm with non-farm sources of income. A 'viable' small farm, for example, may be 20 ha in parts of Victoria or 2000 ha in parts of Western Australia.

In Australia, language to describe small rural landholders varies and includes labels such as hobby farmers, part-time farmers, absentee landholders, tree-changers and lifestyle farmers to differentiate the sector from fully commercial agricultural operations. Socio-demographic trends suggest small farms are becoming increasingly synonymous with landowners that have a major occupation (and income) other than farming.

Hollier *et al* (2004) describes the small lifestyle farmer as someone who manages between 2 and 100 ha, derives most of their income off-farm, and has an estimated value of agricultural operations (EVAO) of less than \$75 000 per year.

At the more 'lifestyle' end of the sector are those land managers who are not engaged in any (or minimal) agricultural production, but rather manage land to achieve 'lifestyle' outcomes. At the other end of this scale are landowners who generate farm income, but not enough to keep the farm economically viable.

Much of the research in respect of the small farm sector highlights the phenomena of the increasing number of small farms in regional areas across Australia. This market sector is changing the traditional demographic make-up of rural communities, influencing community values and providing new opportunities for community growth. Of particular relevance to this Independent Review Hollier & Reid (2007) conclude that:

"The challenge for all levels of government to address issues associated (with small farms) within contested rural landscapes in amenity and peri-urban areas will be to find ways to support communities seeking to reach their potential and deal with their issues without applying a single 'one size fits all' solution. Recognition of the small farm sector as valued contributors to rural communities will be fundamental for integrated approaches in partnership with communities."

In fact, in almost stark contrast to the premise relied upon within the s355 Committee Report that the dominant trend across all Australian agriculture has been one where farm sizes are getting bigger not smaller, is the realisation that it is actually the number of sub-commercial farms that have increased over time when compared directly with commercial farms. Indeed a large proportion of farms in both the Riverina and the Capital regions are small in terms of their business size (Binks *et al* 2013a and 2013b).

This is not to say that small (including sub-commercial) farms are problematic and that smaller lot sizes within rural zones should be simply regarded as being inconsistent with Ministerial Directions, State Policy and Regional Strategy as well as zone purposes and objectives. That to do so would simply lend continued support to the contentions that small farms are likely to be unsustainable, backward, unproductive etc.

Rosset (1999) challenges this conventional wisdom that bigger is better through use of evidence from a number of countries to demonstrate that small farms are what he describes as being "*multi-functional*". That is, small farms can be more productive, more efficient and can contribute more to economic development than large farms.

He also argues strongly that smaller scale farmers can also make better stewards of natural resources, conserving biodiversity and safe-guarding the future sustainability of agricultural production.

All farms whether big or small have some impact on the environment and their local community. Further, the nature and characteristics of small farms although not dominant in production terms, are numerically significant and an integral part of the rural landscape (Hollier & Reid 2007). To dismiss such an important component of the rural landscape paints an incomplete picture at best. Indeed it is widely recognised that small farms can make a substantial contribution to rural communities (eg Houston 2003; Reid *et al* 2003; Rural Zones Review Reference Group 2003; Hollier & Reid 2007, Barr 2009). Ongoing work by the Victorian Department of Primary Industries and more recently the Municipal Association of Victoria (Spiire, 2012) has also focused on this important sector and its influence on rural landscape change and regional capacity building

From analysis of the small farm sector it can be seen that three distinct categories can be identified (Avery, 2002); namely

- The family farm - those farms with gross sales upwards of \$300,000 per year.
- The lifestyle or hobby farm – those farms with less than 50ha where most income is generated from off-the-land activity.
- The intensive small farm – those farms within the peri-urban fringe.

Hollier & Reid (2006) break the small lifestyle category into two further groups; namely:

- Those with ‘lifestyle values’ (they tend not to respond to economic drivers thereby limiting their interest in land management that focuses on improving agricultural production and profits); and
- Non-farmers and retirees (they not only tend to respond less quickly to economic drivers but also are more averse to risking off-property income in farm enterprises).

Of interest Table 1 below identifies some of the sub ‘lifestyle’ farming styles that have emerged from the research.

STYLE	COMMENTS
Real estate farming	This style of farming involves native vegetation retention and revegetation as a method for improving value of the land (in order to sell the property to others who value aesthetics). SLL of this style are interested in participating in revegetation programs (Bushcare, tree planting incentive schemes).
Green	Focus on land purchase is to improve/care for the environment. Perceive native biodiversity as very important, top priority, have a land stewardship ethic, broadly recognise environmental problems, are highly motivated to improve conservation values. May or may not be involved in agriculture.
Lifestyle	Buy land solely for lifestyle purpose – to be out of the ‘rat race’, or have an open space for the kids, or so they can have chickens and a vegetable patch. Generally live on the land. Environment and land stewardship concepts can be important, but is not highest priority, and recognition of environmental problems and native biodiversity is usually low.
Farming	Purchase land with the ideal of making money in the future. Small scale. Can live on or off the land. May or may not perceive environment and land stewardship as important. Recognition of environmental problems would be higher than lifestyle farmers, but not as high as green farmers. Even if environmental problems or native biodiversity is recognised, they are not the highest priority.
Absentee, uninformed	Can be in lifestyle or farming categories, or have bought land for a specific purpose – place to hunt, an investment property, or other. They live off the land, do not have land stewardship ethic and environment is not a priority. Recognition of environmental problems and native biodiversity not well developed.

Table 1: Farming styles that have emerged within the Small Lifestyle Landowners sector (source Hollier *et al* 2004)

Aslin (2006) refers to evidence from social surveys that suggest that rural lifestyle landholders within the small farm sector are also very important segment of the rural population in many parts of Australia and that their activities have important implications for rural land use policies, natural resource management, agricultural production, biodiversity, biosecurity and animal welfare.

Hollier & Reid (2006) note also that the connectivity of small farms with the large farms is actually not as common as popularly portrayed. Indeed research in the North East region of Victoria indicates that around 44% of small farms only share borders with other small farms and a further 30% only have one boundary shared with large farms. Francis (2002) also explores the myth that bigger is better concluding that modified farm operations that rely on increased production from a reduced land size can be just as valuable an outcome.

As with much of rural Australia including the broadacre industries (Hajkowicz *et al*, 2003), implicit with operations across the small and family farm sector is an increased reliance on off-farm income. This income can be derived from a number of sources including off-farm investments, off-farm businesses, consultancy based on innovative farming practices as well as wages and salaries from off-farm employment (Perkins *et al* 2003). This is not a new phenomenon in Australian agriculture with increasing reliance reflective of trends across the developed world where farming families rely on more than one income and/or engage in part time farming. Two outcomes of this increased reliance on off farm income are firstly a changed perception of what now constitutes a farmer and secondly a lessening of the relationship between farm size and farm income.

Other issues of relevance, but beyond the scope of this Planning Issues Chapter include:

- population decline that is being experienced across rural areas as a direct counterpoint to impacts of agricultural productivity and innovation on farm businesses’;
- coupled with demographic changes have been changes in the expectations of women and youth. Barr (2003) for instance highlights how the role of farm women as both farm business managers and as part of the paid workforce has changed radically in a generation;
- consumer behaviour, developments in other sectors of the economy, and processes of industrialisation and vertical integration in agriculture (Crosthwaite, 2004);
- the added complexity of the need for farms to adapt to climate change including expected impacts on productivity through increased average temperatures, changed rainfall patterns, increased levels of atmospheric carbon dioxide and increased climate variability;
- water availability. Linked also with climate change issues are the complex parameters related to water availability. CSIRO (2008) notes that while the various impacts of climate change by 2030 are uncertain, the availability of surface water across the entire Murray Darling Basin is more likely to decline than to increase with the prospect of substantial decline in the southern section of the Basin, including the Murrumbidgee region quite possible.
- issues associated with ‘peak oil’. While climate change issues are essentially related a demand driven set of parameters running almost in parallel with this

looming issue are a set of supply driven parameters related to oil production. While this issue is being vigorously debated the potential for significant impacts on agriculture cannot be ignored (Environment Victoria, 2009). Likely scenarios will be an imperative to significantly reduce reliance of diesel and for farm businesses to adapt through various options such as growing their own biodiesel, using natural gas and switching to more efficient transport options for haulage. It will also likely result in agriculture become more localised as a consequence of reduction in choice as regional produce is favoured over more costly imported produce.

- macro-economic trends influenced by Government policy including impacts of interest rates, inflation, and the exchange rate; and
- other megadrivers out of 'area of control' of landowners including tax arrangements, subsidies, social arrangements and norms, education arrangements and development in technology. (Crosthwaite, 2004)

Lastly, to further complicate the rural landscape, it is also noted that in direct contrast to the decline in farm establishments has been the steady growth in the number of rural holdings. For instance in Victoria within the three years, 2000-2002, the number of rural holdings increased by 11,000 with the number of holdings totaling 160,000 (DPI, 2003). Over 5,300 of these properties are sold each year with over 3,000 of these sales being classified as small farms. Hooper *et al* (2002) notes that while the contribution of these 'sub-commercial' farms to the gross value of agricultural production is small (less than 5%) they manage a significant quantity of relatively high value, productive land and make a substantial contribution to communities.

2.3 The Role of Landuse Planning

Against the context of the above discussion are questions raised in respect of the role and effectiveness of landuse planning in dealing with rural diversity including the family and small farms sector and in providing opportunities for introducing a merits based approach to decision making across evolving rural landscapes. This is further complicated by differing spatial fragmentation of land into a wide range of uses and lot sizes across neighboring municipalities. Buxton *et al* (2006) comments on fragmentation due to a lack of policy and institutional integration.

Local government authorities often develop differing policy responses to the problems of natural resource management and land use planning even over similar land types in peri-urban areas, and often actively promote the spatial fragmentation of land through development in order to expand rating bases.

Millar (2011) for instance cites a number of cases where landuse planning has performed poorly particularly in peri-urban areas. This has led to a degree of tension in reconciling whether landuse planning should be protective and restrictive or alternatively flexible and adaptive in catering for multifunctional landscapes. Such discussion leads to consideration of the effectiveness of the typical "one size fits all" approach for rural landuse planning across much of Australia.

Ultimately the goal of landuse planning should be to sustain rural communities by making it easier for land holders to diversify, change and adapt to more profitable and sustainable industry including across the small farm sector. As noted by NRE (2002) by creating opportunity for diversity on small family farms, many of the newer farming industries offer more job opportunities, profitability and ecological sustainability than traditional industries.

2.3.1 One Size Fits All?

At this point it must be said that this Review is not advocating an open slather approach to the subdivision of rural land. The need to protect a valuable resource such as productive rural land is well understood and the case is perhaps as well put as any by Blackwood *et al* (2006) as follows:

“Properties with high productive potential are of particular value for agricultural use, but low current productivity does not mean that further subdivision is necessarily appropriate.

On the contrary, larger holdings are required to allow the sustainable productive use of the typically moderate to low productivity grazing lands that dominant in the region. Optimal use of low productivity pastures is also more likely, where properties comprise an appropriate mix of low, moderate and highly productive grazing (or cropping) lands.

The total holding need not comprise a single parcel of land in the same locality or even region. Grazing properties also commonly include both leasehold and purchased land. The chance to combine sufficiently large areas of land and to retain an appropriate resource balance, however, decrease as lot sizes become smaller and the emphasis on residential use increases. Problems include; increased operating costs and increased difficulty in shifting stock from one property to another, increased property prices and rates, reduced interest in productive agricultural land use and increased risk of land use conflict.”

There are indeed many authors that rightfully warn against the unplanned loss of agricultural land and the landuse issues that can be associated with the fragmentation of farm land. This notwithstanding there is another side to the story which seems to be ignored in planning policy and its subsequent translation into Environmental Planning Instruments and strategy papers.

Simply put, despite those who would argue that large farms are the only ‘proper’ farms, the fact of the matter is that not all rural land is the same, and that there is a legitimate place for the small and family farm sector in rural Australia. Strange as it may seem, the otherwise obvious diversity of the farming sector that ranges from small lifestyle farms all the way up to large corporate farms is largely overlooked in state and local planning policy and consequently gets little or no recognition within the statutory planning provisions applied to rural land across NSW.

Therefore it could be concluded that controls which are essentially aimed at protecting prime agricultural land by promoting adherence to large minimum lot sizes for dwellings across a zone by necessity also apply to land that is not “prime” land of strategic local or regional importance. That is the one size fits all approach necessarily also applies to marginal farming lands, to areas highly fragmented with small holdings, to ‘billy goat’ country as well as urban fringe and in some cases even residential sized lots on the edge of small townships and villages.

2.3.2 Minimum Lot Sizes

When viewed against a varied and evolving rural landscape such as the Yass Valley LGA and the apparent drivers for change across the broader landscape becomes apparent the “one size fits all” approach has serious flaws in trying to achieve a balanced and well considered approach. Unfortunately however this approach continues to be reinforced by the NSW Standard LEP and ancillary planning direction that readily supports the adoption of unnecessarily large minimum lot size minimum lot sizes as a mechanism to try and control rural landuse decisions particularly in respect of subdivision and the erection of a dwelling. This is not a new paradigm.

Indeed it was in April 1973 that the NSW State Planning Authority (SPA) introduced a general 40 ha policy for the rural areas of the state. This standard was introduced as a 'stop-gap' measure on the basis that councils would in time develop rural planning policies which suited the particular needs of their areas. The SPA at the time published its position in Circular No. 67 called "*Policy regarding subdivisions and residential development in non-urban zones*". This was further clarified in Circular No. 74.

The NSW 40 ha Review Working Group (1999) in their background report "*Out of Town*" noted that this State policy was seen as a response to growing concerns about the spread of residential blocks in rural areas. Problems associated with this included fragmentation of viable farms, inflated land values affecting farm economics, loss of agricultural land, and the uneconomic diversion of services away from towns. The Working Group also noted that the imposition of the blanket 40 ha standard across NSW was not actually related to the needs and/or capabilities of specific areas.

Despite this, it remains evident that imposition of minimum lot sizes is still considered to be a means of retaining the capacity for sustainable primary production. Barr (2003) argues however that the use of land division policy, particularly minimum lot size, as a planning tool

".....to protect 'prime agricultural land' often betrays a misunderstanding of the dynamic interplay between economic and social forces that are transforming agriculture."

We clearly need to be thinking beyond the notion of simply keeping all rural land in as large holdings as possible. Other non-agricultural issues are equally relevant across rural and regional areas, including equity, social structure, lifestyle expectations and local demographics, not to mention landscape, biodiversity, environment and amenity issues (O'Dwyer 2002).

Further to this it is also the case that land is not the only input into agricultural production and as land values increase, technology tends to adapt to reduce the importance of land as input. The variety of farm types, what they produce and their differences in characteristics, economic situations, and business arrangements, make any one policy instrument appropriate for only a portion of the farm population. Local Environmental Plans therefore need to be robust enough to capitalise on the advantages of contemporary agriculture while at the same time minimising negative aspects of landscape function decline.

Be that as it may, the minimum lot size tool is essentially the only development standard available under the framework of the NSW Standard LEP to try and control land division and the subsequent erection of a dwelling. Therefore minimum lot sizes must by necessity be implemented by Yass Valley Council in the absence of any other strategic performance based alternatives.

Importantly however it is noted that there has been some history of embracing a level of flexibility into the decision making process across the Yass Valley LGA with the adoption of an averaging approach. Within the Yass Valley LEP 2013 2013 the parameters set provide for 80 ha as the average lot size with 40 ha as a default minimum and 150ha being the maximum lot size. Significantly this allows for a merits based consideration of a subdivision and dwelling that provides an outcome where lot sizes can range from 40 ha to 150ha, rather than the alternative adherence to a single minimum lot size, as is the case with the majority of rural based LEP's. This

approach can be regarded as being a very positive strategy in an otherwise largely constrained planning environment.

2.3.3 Is subdivision the problem?

A critical point missed in much of the above discussion however, relates not to subdivision itself as subdivision alone makes little or no difference to the end use of land. It is simply a process for effecting change in landownership creating new legal boundaries between titles not physical boundaries. Indeed this situation has now been acknowledged within the NSW Standard LEP where subdivision for the purposes of primary production can result in a lot size less than the specified minimum size.

Rather the real issue hinges on the subsequent development opportunities and expectations created by decisions to approve subdivision to a default minimum lot size and thereby effectively creating dwelling opportunities. Coupled with this are issues associated with the resultant increase in land values to rates higher than rural values. This already happens across the south eastern section of the Yass Valley LGA where the default minimum is an average of 40 ha.

This issue is touched on within the Planning Proposal wherein it is noted:

Clause 4.2(3) of the Yass Valley LEP 2013 already allows for subdivision for the purpose of primary production to create a lot less than the minimum lot size shown on the Lot Size Map. Clauses 4.2(4) and (5) however prevents either an existing or new dwelling being located within that lot. The Yass Rural Lands Planning Committee provided advice to Council that it was critical that dwellings be permitted on these smaller lots for several reasons, including the ability to satisfactorily manage the primary production undertaken on the land, as well as undertaking effective pest and weed management.

This issue has been considered in other states and in particular it is worthy to note the Municipal Association of Victoria Small Rural Lots Project (September 2012) which discussed the implications of not allowing dwellings on small lots. It focused on the lack of weed management, as well as the potential for owners to use the land for Carbon Farming plantations –which, if left unmanaged increases bushfire risk.

The relationship between subdivision and dwelling opportunity is however not such a straight forward issue. The removal of land from agriculture is a long-term trend generally associated with economic development and driven by social and economic change (Barr, 2000b). Frequently driving such desire to subdivide land and to increase land values are issues related to farm succession and inheritance. Hooton (2004) for instance discusses the unspoken, highly charged question in respect of “who gets the farm?” that literally hangs in the air over rural properties everywhere, and notes that answers in respect of farm succession can often be last minute and at times brutal.

Barr (2009) notes on the one hand that farmers who aim for an economically sustainable farm business must increase farm productivity to keep up with declining terms of trade. Most farmers in areas of lifestyle migration choose a course of least resistance. That is they keep farming without buying more land. As the terms of trade compress such farmers frequently become financially smaller.

As a direct consequence such farms often instead become part of the financial security of the landowner in retirement rather than a farm to be passed onto the next generation as a viable business. The option for intergenerational transfer is replaced by the likelihood instead of capital gain, which can be enhanced through land subdivision, with an opportunity to erect a dwelling on the land.

Clearly increased cash value per ha can be significantly enhanced due to residential values rather than farming values and consequently professional farming becomes a less desirable land use. So we can see that over the parts of NSW and Victoria subject to demand for "lifestyle" rural or house lots, land values are well above the value of the land as an input to production. But in areas such as across the Hay Plain, real farming prices take over. In those areas, minimum lot sizes become irrelevant.

To put the theory to work effectively one would probably need to set a minimum lot size of over 300ha in close proximity to an urban area such as Canberra but 10 ha around a township like Moulamein - just the opposite of what happens. Having said this, such a large lot minimum around Canberra would be totally ineffective as it would be almost impossible to find a 300ha parcel. Such big lots would also be far larger than needed for farming anyway, thereby being a major impediment to rural land trading - just the opposite effect from what is needed.

The Victorian Rural Zones Review Reference Group (2003) commented on such issues in some detail, concluding that subdivision largely becomes a 'problem' when it is predominantly a residential end use that is proposed and the nature of the land use essentially changes from agriculture to rural residential. As a direct consequence, landowner's expectations change accordingly. Sinclair and Bunker (2007) note that this can be particularly the case with rural living lots up to 18 ha in area. They also caution however, against simply interpreting rural living subdivision as being simply about attraction of rural lifestyle, highlighting a range of business activities, including intensive agriculture, that occur on many smaller lots across the rural landscape.

The Future Farming Rural Planning Group (2009) in considering the loss of agricultural; land and land use conflicts as a result of settlement, commented that the historical association of the farmhouse and the working farm as the principal reason for the development of dwellings has changed markedly over the last half century under the influence of a wide range of economic and social factors. Although needing to exercise some caution the Group contend that:

"Conversion of agricultural land to a residential land use is not necessarily an inappropriate outcome. It is the ad hoc nature of the conversion and lack of consideration of the social, economic and environmental consequences of the conversions – including impacts on agriculture and associated industries – which is inappropriate and disadvantageous to the community."

In conclusion there can be seen to be a natural tension between planning for the long-term benefit of the broad scale farming sector while also creating opportunities that satisfy the aspirations of individuals. While these issues are beyond the scope of this review report it is apparent that there is a genuine need for significant attitudinal changes regarding family farms from those focused on inheritance issues to those which aim to provide children with sustainable agribusiness opportunities.

2.4 Concluding Comments

Having regard to the above discussion and review, it is concluded within this Chapter of the Review report that the Yass Rural Lands Planning Proposal 2013 has merit from a rural land-use planning perspective. This is particularly the case if it is accepted that adherence to an overly large single default minimum lot size without averaging provisions bears little or no relationship to the actual rural landscape within which the control is being implemented.

If it is accepted that there needs to be differentiation between the lot size provisions of the RU1 (Primary Production) and RU2 (Rural Landscape) Zones as compared to the RU4 (Primary Production Small Lots) Zone then a default average lot size in excess of 16 ha will be required. Having regard to relevant research (eg Low Choy *et al* 2007, Sinclair and Bunker 2007) it can be seen that lots up to 16 ha tend to be “hobby farms” where the residential use predominates while lots in excess of 16 ha tend to be primarily used for small scale agricultural production with dwellings being an ancillary land use. As a consequence, and in the absence of any evidence to the contrary, the Planning Proposal recommendation of an average lot size of 40 ha with a minimum of 20 ha would appear to be fair and reasonable in the circumstances.

Further, if the basic premise is also accepted that the proverbial 80 ha “horse has long bolted” from the Yass Valley LGA, particularly in the south eastern sector, then a reduction in the default minimum can also be considered appropriate. To argue otherwise would continue to support the notion that lot sizes below an average minimum of 40 ha are bad as they apparently impact upon potential productivity, cause landscape change and contribute to loss of rural character while on the other hand lots of the default size or above are without doubt good and should be supported regardless of the purpose of the subdivision or aspects of land capability.

The Planning Proposal appropriately notes that the current trend across the Yass Valley rural landscape is towards smaller properties and the focus has shifted from the wool industry, more towards cattle and prime sheep.

“This has occurred for a number of reasons including changing commodity prices and less on-farm labour being required for cattle enterprises. The last ten years has also seen an increase in stocking livestock that are not traditionally farmed within the Yass Valley such as alpacas, goats, exotic sheep breeds and miniature cattle. These niche breeds generally require far less land area than traditional livestock.

There has been a continuing trend towards smaller, more intensive agriculture for food production including horticulture, hydroponics and free range egg/poultry production. Table 1 details the extent of the intensive agricultural activities undertaken in the Yass Valley LGA at the time of the 2010-11 Agricultural Census. This has been combined with a focus on ‘farm to plate’ approaches across the Yass Valley complemented by farmer’s markets in Yass, Murrumbateman and Canberra; cellar doors, truffle hunts, organic farming suppliers and the ‘Poacher’s Way’ food and wine trail extending over the Yass Valley into the ACT. As more intensive uses are facilitated, it increases the capital and employment flow into the Yass Valley Local Government Area. It also increases rural economic diversity moving away from a traditional homogenous grazing economy.”

The Planning Proposal goes on to contend that:

“Smaller lots between 20 and 40 ha are best suited for these types of intensive agriculture. The smaller lots around 20 ha in area are suited to those who have off farm employment and still want to undertake some form of agricultural activity. Larger lots in the 70-100 ha range are still required for extensive grazing, but are generally larger than buyers require or can manage whilst engaged in off farm income.

The planning proposal provides the opportunity to diversify the economic activities undertaken on rural land in the Yass Valley LGA while maintaining the viability of existing agricultural enterprises in RU1 and RU2 Zones...”

Accepting the basic premise of the Planning Proposal itself the following Chapter 3 (Resource & Agricultural Management Issues) and Chapter 4 (Economic Issues) will provide further analysis of relevant background issues as they relate to the Yass Valley Rural Lands Planning Proposal.

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3 Resource and Agricultural Management Issues

3.1 Approach

The background research and investigative frameworks driving the evolution of planning policies for minimum lot sizes have been fully addressed in the preceding Chapter 3 (Planning Issues) of this Review. The following Chapter 3 will focus on

- Assessing the natural resource and agricultural management issues with respect to minimum lot size as they relate to specifically the Yass Valley LGA;
- Seeking environmental, social and commercially responsible outcomes which reflect the site and situation specific circumstances; and
- Aligning agricultural and natural resource management issues with the needs of best practice planning.

3.2 Agribusiness Context

3.2.1 Agriculture as an Industry

The following comments provide context on how community and policy makers' perceptions of the agricultural industry have evolved and, in many instances, have not fully understood the implications of changes to their policies. The intention is to lay a broad contextual framework to better inform the assessors of this Review.

- The early European settlers (squatters) took up large tracts of land from around 1820 and began early "development";
- The Crown Lands Acts of 1861 (NSW) were introduced to reform land holdings and in particular to break the squatters domination of land tenure;
- After 1861 governments continually used closer settlement and land title constraints to drive higher productivity off smaller parcels of land. Examples include soldier settlement, irrigation schemes and land ownership constraints;
- "Home maintenance areas" and similar constraints inevitably lead to a reduced capacity for the majority of farm businesses to :
 - Respond to the declining terms of trade
 - Shock - absorb against the vagaries of seasons and markets
 - Keep up with rapidly changing social expectations (lifestyle, education, succession planning, etc.)
- The development of the Coleambally Irrigation Area largely over the 1960's was the last major closer settlement project in NSW.

The history of less than best closer settlement and land ownership policies inescapably resulted in the need for a run of costly and ongoing drought and other support schemes leading to the perception of a troubled and poorly managed agricultural industry. In the 1980's governments began to change the basis of support towards education and training with drought and other subsidies used to "pot - hole" the sector through a long transition period.

Concurrently the more enlightened and widely educated/travelled next generation began to escalate their demands for an appropriate lifestyle as part of the family and business succession planning process. These demands have beneficially intensified the adoption of technology and widened the base for a more professional approach to agribusiness and recognition of the need to prudently grow and intensify businesses.

3.2.2 Competitive Advantage

The Sydney Canberra Corridor Regional Strategy makes comment that

“The proximity of the Region to both the Sydney and Canberra markets and major road and rail networks facilitating the supply of produce to markets are the key opportunities for agriculture in the Region.”

This statement ignores the inherently restricted capacity of the land for higher value forms of agricultural production and the commercial reality that agricultural production and market links are in many cases national or even global rather than regional. For example:

- Rockmelons can be produced in the Ord, Katherine (NT) or on the Atherton Tablelands in winter and NSW/Vic in summer. Some major growers in fact have farms in both the NT and NSW to do just that;
- Wine production is national. Tankers move produce across most of Australia and the SE of the country in particular to blend and produce consumer desired branded products. For instance grapes from Rutherglen (Vic) end up in wine produced in the Barossa (SA). Grapes from Yass are already crushed and made into wine at Griffith and/or other regions and then sold with Yass labels;
- Garlic production in Australia has been undermined by the lower cost of production in Asia and subsequent import into Australia; and
- “Fresh” produce within supermarkets in Sydney and Canberra will include fruit and vegetables sourced from farms all over Australia as well as overseas including New Zealand, USA, Argentina, Peru, Mexico, China, South Korea, France and Italy.

The reality is that the seemingly obvious physical advantages of location in relation to markets and to infrastructure access is not always an automatic competitive advantage. There are many commercial factors well beyond the immediately obvious and the cost of land, access to water, access to labour, ability to develop business scale and managerial capacity are also important factors.

Yass Valley is close to large scale cropping businesses which are found in the NW corner of the LGA and adjoining shires. These businesses could expand further into the Yass Valley and the fact is they have not done so because of limited landscapes. Even local agribusinesses appear to not have sufficient area of croppable lands to warrant the high capital investment in plant and equipment for a movement into cropping.

In fact the Yass Valley landscapes, from an agricultural perspective, continue to be best suited to large scale intensive pasture based livestock operations and that current land uses, subject to prudent responses to market trends (fine wool to prime lamb), may be the highest and best use for that land.

Alternatively, parts of the Yass Valley LGA may be best suited to rural residential development and even some urban styled development, in recognition of the proximity to Canberra and the restricted options the National Capital has to expand.

3.2.3 Agribusiness in Context

A common and usually erroneous procedure in assessing the capacity, resilience and responsiveness to change within agricultural businesses is to assess components of a business rather than the total business itself. For example, assessing viability by simple gross margin analyses (ie direct revenue less direct costs related to a specific activity) is often misleading and inevitably dangerous. Even though horticulture based businesses may appear to be far more profitable than grazing businesses on a gross margin (GM) basis, the latter grazing option may be a better total investment considering seasonal and market risks and the quantum of capital and degree of intensity of management required to manage the business.

A worthy analysis should consider both the balance sheet and profit/loss characteristics of any particular business and/or industry taking care to avoid compliance or tax based data. Some relevant comments are:

- Balance Sheet – must be based on net long term trend asset real market values to remove the influence of booms or busts that may be prevailing in particular assets or industries at any one point of time; and
- Profit and Loss – full provision should be made for the renewal of capital as against depreciation and include drawings at preferably that rate of reward which an independent manager would receive.

A first assessment of a profit and/or loss must be based on steady state parameters and should be on a debt free basis being Earnings Before Interest and Tax (EBIT). Thus the business' capacity to service debt, manage risks and cope with the vagaries of seasons and markets can be more reliably assessed.

It is necessary to understand the implications of the above when assessing the capacity of agribusinesses within the Yass Valley LGA to grow, to provide encouragement to and capacity for subsequent generations to take control of the business and likewise for the current proprietors to enjoy a reasonable level of reward and eventual retirement.

3.2.4 Scale of Agribusinesses

The next point that needs to be addressed is that of business critical mass (BCM). This is a rarely understood business assessment criteria and one which has become more to the fore since the late 1970s to early 1980s.

Agriculture is a capital intensive and a long term industry requiring relatively high equity to best manage the vagaries of seasons, markets and changing societies. Businesses with good BCM have a greater capacity to shock absorb, have better access to funds for growth to grow ahead of the inevitable decline in the terms of trade, are more likely to have the capacity to be able to absorb new land assets at short notice, are better placed to adopt new technology and are able to provide an appropriate reward for both management and for the quantum of funds invested. There are various rules of thumb against which to assess BCM and an initial guideline is for an agribusiness to have a gross balance sheet of around \$5.0M as a minimum and preferably one closer to \$8.0M to \$10.0M. These gross asset values do not allow for the additional value imposed by competition for particularly real estate assets such as that driven by rural residential expansion.

BCM criteria enable lifestyle standards expected throughout society and in particular by the younger or next generation agriculturalists. More and more there is a desire for a worthy lifestyle and work/leisure balance. Accordingly the younger generation is less inclined to come home and take over the business unless the business has some sound level of BCM.

The philosophy of “get big or get out” has been around for decades and at times has been overly promoted. The more informed prefer to focus on management skills with access to a solid resource base and that to have the required and enhanced capacity to shock-absorb it is best to have a smaller business generating say an 8% EBIT yield (return on assets) than a larger business on say a 2% EBIT yield. Inflated asset values will diminish the EBIT yield and less than best management will undermine capacity to grow and service debt

3.2.5 Future Agribusiness

Because agriculture is a long haul and capital intensive industry with strong emotional ties to land, any significant changes to asset values tend to be spread over long time frames. Experience suggests that most major changes occur with changes of management (family succession) and when there is major industry upheaval such as the 1990’s wool market collapse. Relatively smaller changes occur with the ongoing and relentless decline in the terms of trade, market changes, seasons and general resource policy changes. From an agricultural perspective:

- Stronger businesses will continue to grow whilst adopting new technology, seeking efficiency gains and intensifying operations;
- Weaker businesses generally change hands, often to a larger business at the end of the current generation; and
- Poorly managed and/or those with excessive debt fail at times specific to that business and its relationship with its financier.

Where abnormal circumstances exist, especially where returns on investment and expansion opportunities are constrained, then consideration is given to seeking to change by selling and relocating the business. Pressures on land values within the Yass Valley LGA will drive an assessment of sale and future direction options, usually with the change of family management/succession.

3.3 Natural Resource Issues

3.3.1 Biodiversity

Biodiversity mapping for the Yass Valley LGA is noted at Figure 4. The Yass Valley LGA includes a range of protected areas on public and private land, including a State Conservation Area, a National Park, numerous Nature Reserves, and numerous private Wildlife Refuges.

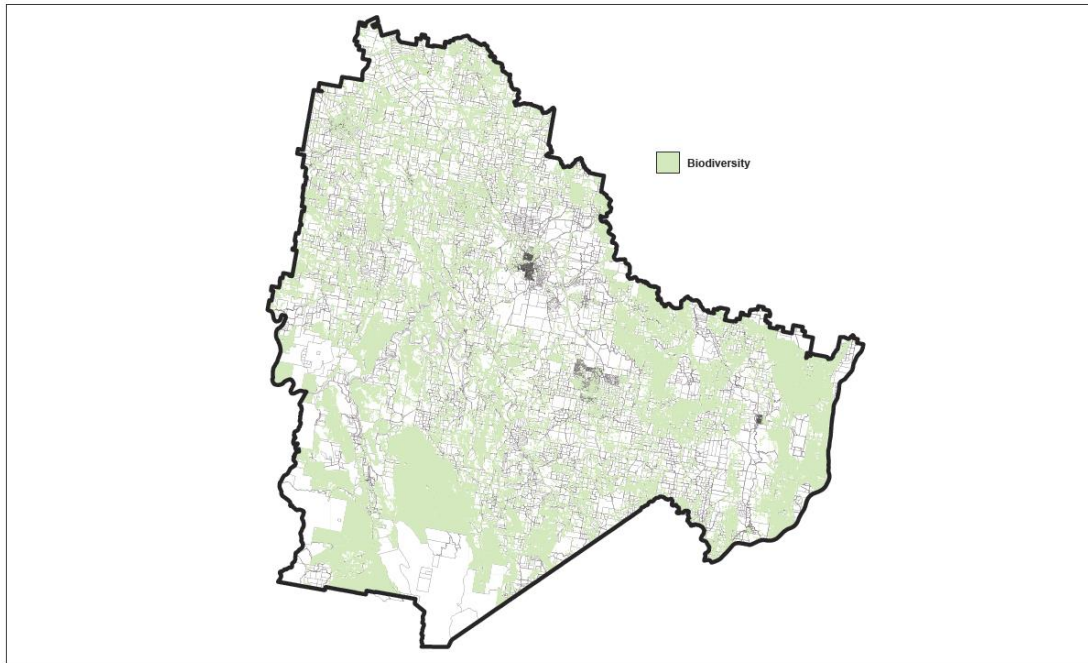


Figure 4: Yass Valley LGA – Biodiversity (Data provided by NSW Office Environment & Heritage)

Some observations of Figure 4 include:

- There are large tracts of land with known sensitive flora and fauna across the Yass Valley LGA. These have been recorded and included within the Yass Valley LEP 2013 documentation as the above map depicts;
- Observations made in the brief inspection of the Yass Valley LGA for this Review are that the smaller holdings appeared to be more proactive in planting trees and shrubs than the larger more traditional farming operations. This comment does not infer less than adequate natural resource stewardship on the larger holdings where owners are expected to be under more time and cash flow pressures than the smaller holdings. Smaller holdings are more likely to undertake plantings for landscaping needs and/or Landcare objectives with less regard for cost/benefit considerations and an underlying need to enhance appeal for lifestyle reasons and with an eye to optimise a possible future sale;
- The key need is to promote the use of native species rather than exotics where new plantings are intended to add value to overall indigenous biodiversity; and
- Under the expected sound management of the Yass Valley LEP 2013 and a successful focus on native species, there should be no undermining of the value of biological assets by any reduction in minimum lot sizes.

3.3.2 Water Resources

Surface and groundwater resources for the Yass Valley LGA are provided in Figure 5. The three major river systems of the LGA are the Murrumbidgee, Yass and the Goodradigbee, all of which flow into Burrinjuck Dam.

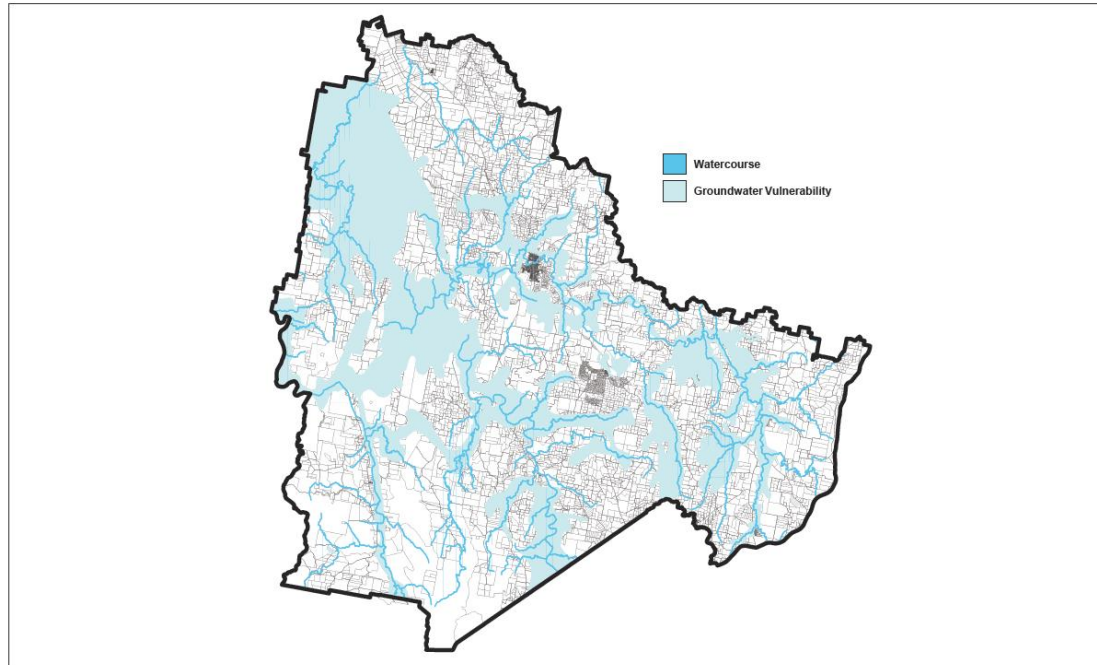


Figure 5: Yass Valley LGA – Water Resources

Because of the number of darker blue lines representing rivers and creeks, Figure 4 appears to suggest there are adequate water resources across the Yass Valley LGA but this is not necessarily correct. The depicted water ways are not always flowing and the numerous dot points are dominated by farm dams with a limited storage capacity.

Vulnerable groundwater resources in the Yass Valley LGA are indicated as lighter blue. The Yass Valley State of the Environment Report 2011/12 notes that there are many pressures on groundwater supply across the LGA and that given poor quality as well as the risk of pollution from on-site sewage management systems “*reliance on groundwater supplies is also a health concern*”.

The key concerns for the future access to surface waters include:

- Climate change – CSIRO modelling for the Murrumbidgee Catchment suggests a decline of between 0% and 31% in catchment run - off by around 2050 with the most likely scenario of a 9% decline;
- Small holder lots – Installation of too many farm dams for domestic and stock water supply could potentially impede, delay and even reduce catchment run - off; and
- Urban growth – the growth of the main centres of Yass, Murrumbateman and other villages will increase demand for potable water supplies in a period when supplies are likely to be in decline from the above two impacts. However, the supply of urban run-off and reclaimed wastewater could be expected to increase leading to socially and environmentally responsible management of these resources.

Irrespective of the level and extent of small holder allotments within the south eastern section of the Yass Valley LGA, the indications are that a new source of water will be needed. Whether that is sourced directly from Burrinjuck Dam, Canberra water sources, Yass Valley Council savings or other sources is beyond this Review. The fact is that the volume and delivery aspects of future water supplies into the Yass Valley LGA will need to be addressed in a full strategic sense.

3.3.3 Salinity and Erosion

Salinity and risk of soil erosion information in respect of the Yass Valley LGA is provided at Figure 6.

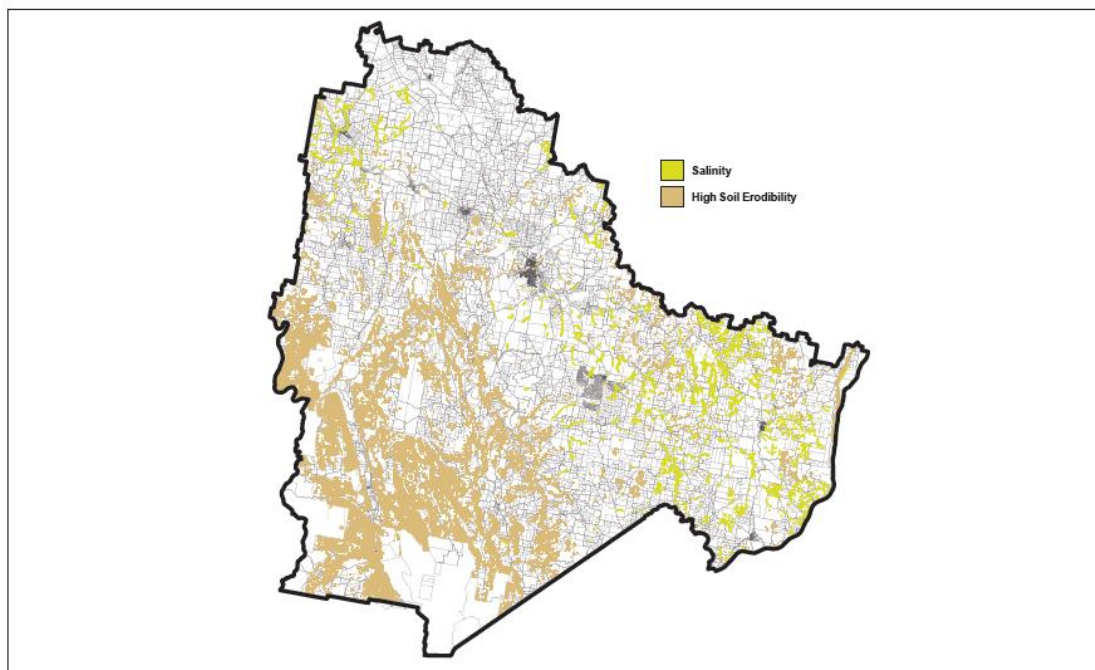


Figure 6: Yass Valley LGA - Salinity

From the above Figure 6, it is evident that dryland salinity is a significant issue especially in the eastern sections of the Yass Valley LGA. The Yass Valley State of the Environment Report 2011/12 notes that salinity continues to be a problem in the LGA with a number of salinity hazard regions being identified. In the absence of a known regional salinity study, the problem is expected to be driven by:

- Generally higher level of land clearing for farm production purposes;
- The planting of more annual than perennial species of crops and pasture; and
- The inherent geomorphological nature of the landscape which enables localised recharge and discharge and localised ponding in wetter periods.

Since only water evaporates, any discharge area and/or areas of extended ponding will leave salts behind as the water is evaporated. Reduced rainfall under the projected climate change may result in moving salts more slowly but the expected increase in evaporation may lead to the negative impacts of salinity expressing themselves more severely. The net effect is not able to be quantified for this report.

Local recharge/discharge within the Yass River valley is evidenced by the location of hydrophilic plant species (eg *Juncus*) which prefer to colonise such landscape conditions.

Should the observed and expected increased plantings of trees and shrubs by small lot landholdings eventuate, this action could favour a potential reduction in dryland salinity. However the current demand pressures for small lots are in the peri-urban interface to the southeast of the LGA with a higher salinity problem and thus any worthy monitoring programs will take possibly decades to reveal factual trends.

3.3.4 Land Capability

Land capability for the Yass Valley LGA is provided in Figure 7.

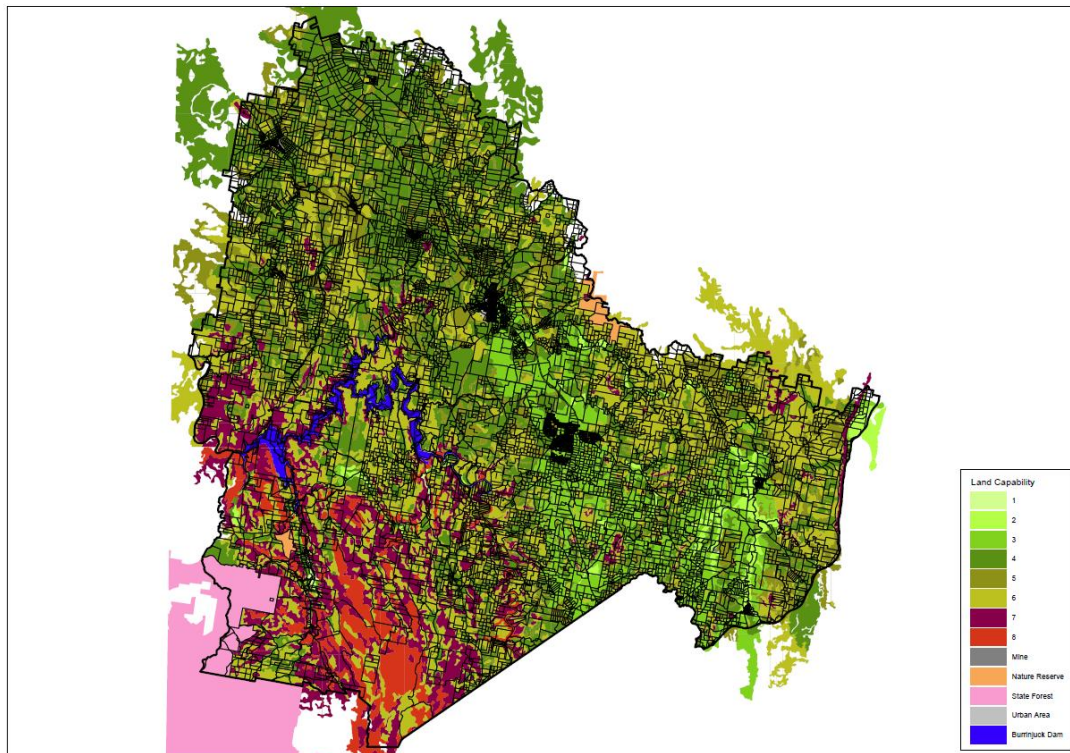


Figure 7: Yass Valley LGA – Land Capability (DNR 2006)

The land capability map summarises the net impacts of biodiversity, salinity risk, slope, soils and other criteria to provide a broad assessment of the nature of opportunities for agricultural enterprises.

To provide a broad guideline, the following simplified description of the scale is provided.

- Scales 1 to 2 – possibly suited to horticultural crops in the absence of local constraints.
- Scales 3 to 4 – possibly suited to cropping, also subject to the absence of local constraints.
- Scales 5++ - more likely to be better suited to grazing pursuits.

In effect there are significant land capability constraints to agricultural productivity and this is reflected in the historical and current focus on grazing rather than cropping pursuits.

From a risk management perspective grazing is the best and highest land use practice with localised exceptions, especially through the central sections of the Yass Valley LGA.

3.4 Agriculture in the Yass Valley

3.4.1 Holding Sizes

Holding sizes for the Yass Valley LGA are provided in Figure 8.

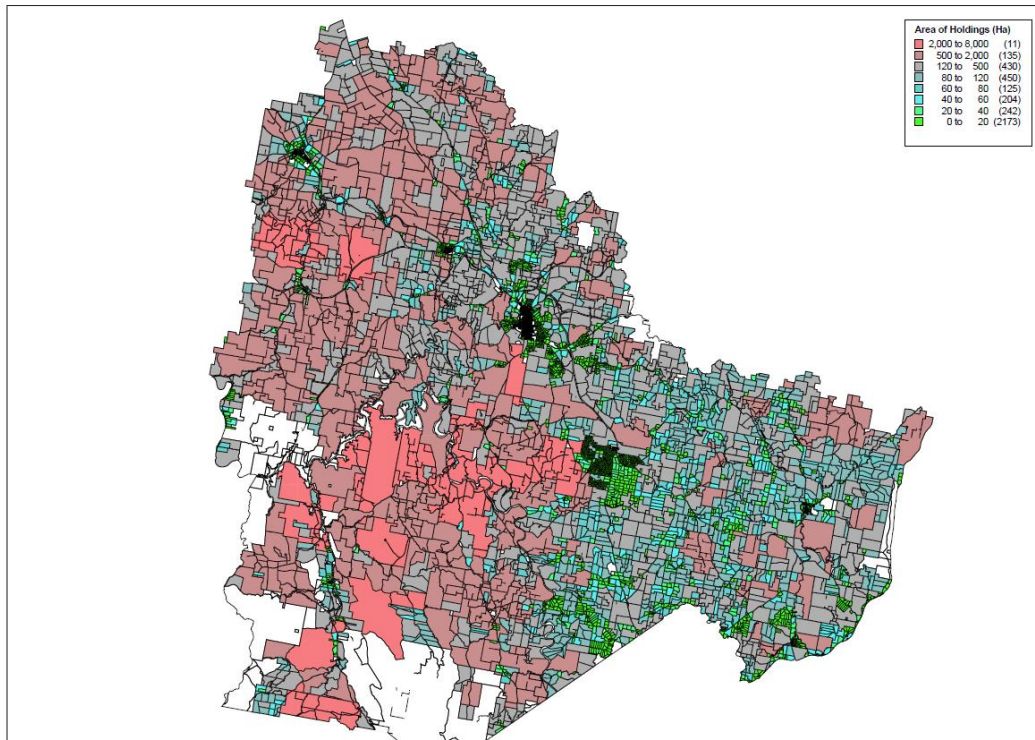


Figure 8: Yass Valley LGA – Area of Holdings (Ha)

Observations from Figure 8 are:

- The smaller holdings tend to be concentrated across the south eastern and eastern sections of the Yass Valley LGA with relatively easy access to Canberra;
- Other smaller holdings are clustered around the towns of Yass, Bowning etc;
- There are some larger holdings in the Yass Plains with the concentration of larger “Plains” holdings in the eastern sections where access time into Canberra is longer; and
- The largest holdings are in the steeper and rockier lands found in the western and northern sections of the Yass Valley LGA.

It is expected the few larger holdings across the Yass Plains would find expansion of land assets expensive and hard to justify on a commercial agricultural returns basis. This issue is addressed in section 3.6.

The exception in particularly the south eastern and eastern sections of the Yass Valley LGA would be as a potentially worthy short term investment to enhance superannuation opportunities through capital growth and then later sale upon retirement.

3.4.2 Land Values

Land values for the Yass Valley LGA are provided in Figure 9.

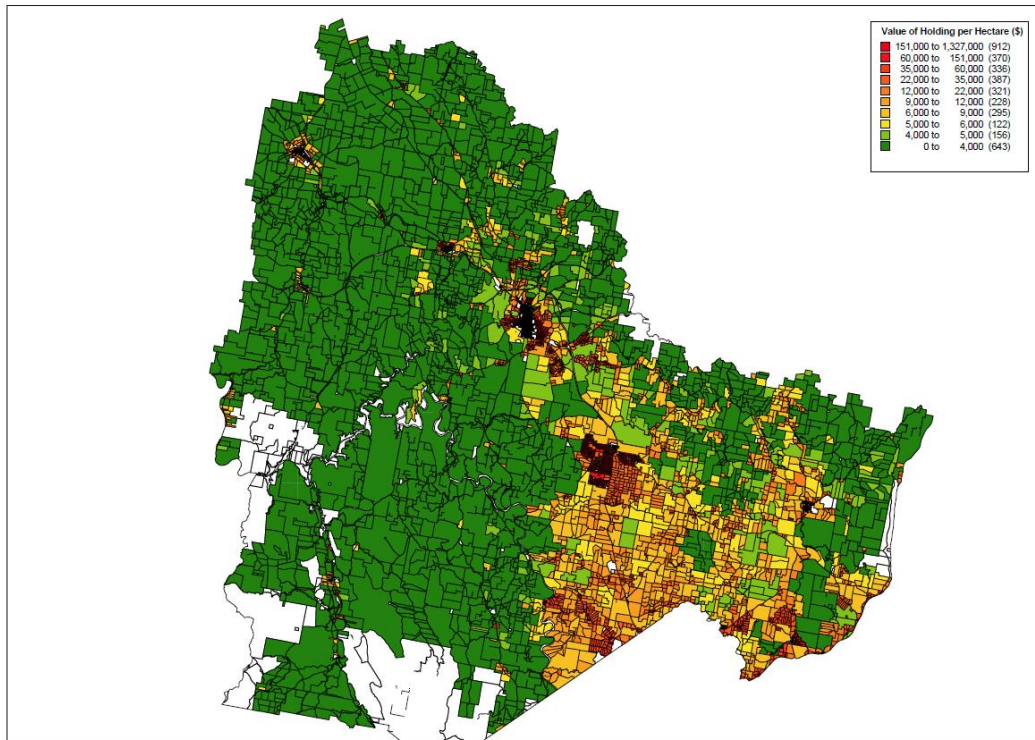


Figure 9: Yass Valley LGA – Land Values

The land values depicted in Figure 9 are based on the Valuer Generals (VG) assessments for Council rating purposes. Whilst there is no generally accepted ratio linking VG values and open market values, enquiry and experience suggests:

- VG values + 25% as a fenced and watered value for a grazing business
- + values of other improvements of homesteads, sheds, yards

The above may suffice for the larger agricultural businesses which may be up to around \$4,000/ha VG value.

Beyond that \$4,000 sum would be a loading for potential rural residential development.

The above concentration of higher valued land on a per ha basis in the south eastern Yass Valley LGA clearly demonstrates that the majority of the Yass Plains and other lands readily accessible from Canberra have already driven land values to extreme agricultural levels and undermined the opportunity for commercial farm expansion.

3.5 Agricultural Production Constraints

The majority of the Yass Valley LGA is best suited to grazing of particularly sheep and cattle. This view is based on team observations, land capability and other Council mapping and supported in principle by dialogue with agency and DPI staff and is due to the rocky, undulating and generally unsuitable landscapes for significant broadacre cropping and other intensive agricultural pursuits.

Particular exceptions are a north to south strip to the west of the Barton Highway from the ACT up to Yass and slightly to the north of the town. The next area suited to cropping is to the north west of the Yass Valley LGA in the direction of the towns of Harden and Murrumburrah. NSW DPI has confirmed that broadacre crops have been successfully grown in these areas.

During inspection of the eastern area of the Yass Valley LGA in May 2014 a number of localised areas of soil wetness due to local and larger area rain recharge and ultimate discharge further down the slopes were observed. Also noted were depression lines which would be expected to be affected by extended periods of wetness in periods of prolonged higher than usual rainfalls. The presence of rushes (ie *Juncus* species) and other plant species favouring such wet landscapes are readily observed. This suggests that the use of perennial ground plant species plus areas of trees and shrubs would benefit the overall landscape. However it was noted that many commercial farms appear to have focused on annual pasture production in preference to planting perennial species whereas the rural residential and small farm landholders have been more active in planting particularly trees and shrubs. This observation is also affirmed through a review of Google Earth imagery.

There are other production constraints specific to a number of potential alternate agricultural industries and these will be summarised in the following sub - sections.

3.6 Commercial Agribusiness Issues

3.6.1 The Need to Grow Agribusinesses

At pages 8 and 9 of the “Rural lands Planning Proposal” of 2013 the following comment is made.

“Stocking requirements for a profitable sheep operation in NSW have increased from 2,000 sheep in 1970 (Dept. Ag/CSIRO Yass Valley Project 1970) to 7,500 or more sheep under current conditions.”

“To be fully self employed as a grazier within the Yass Valley LGA, you would need to stock to the following scale:

- *Self - replacing merino flock 8,000 DSE*
- *Store lamb flock 10,000 DSE*
- *Cattle breeding 15,000 DSE”*

In broad terms this data closely approximates the change in the Consumer Price Index (CPI) and suggests a business would need to grow by a factor of 3 to 4 over one generation of management to simply end up with the same level of profitability in 2013 as it did have in 1970. The only difference being the value of the dollars used to calculate that change in profitability.

In the teams professional experience, the above 2013 data seems conservative and on actual detailed analyses it would not be beyond reasonable grounds that the above 3 to 4 factors may be found to be too conservative.

Especially given the evolving current parameters for reward for management, reward for risk and reward for investment are used and that changes to standards of reward and the external forces on land values over the past 40 odd years are considered.

The immediate question is “is the required capacity for a necessary productivity growth of three to four times possible, let alone probable within the south eastern Yass Valley LGA over the future strategic planning horizon of 25 years”?

3.6.2 Farm (Land) Values

As part of this Review a simple survey was made of two real estate agents and two NSW Department of Primary Industries (NSW DPI or Agriculture) staff.

Some of the key points to arise were:

- Agriculturally the best use of the majority of land was for the grazing of livestock with most of the Yass Valley LGA carrying around 8 - 10 (say 9 average) dry sheep equivalents per ha (DSE/ha). The best 10% of producers have achieved 13 DSE/ha but only with high input costs and intensive management;
- Most graziers tended to stock at lower than potential output levels for their core stocking level. They then use beef and sheep trading strategies to utilise surplus feed when it was available. This is a sound business risk management strategy and given climate change predictions the core stocking plus trading strategy should become more appropriate;
- The underlying commercial agribusiness value of land was \$300 to \$350 for each DSE able to be carried on an “adequately fenced and watered” basis. Infrastructure of homesteads, staff housing, sheds, yards, etc were additional commercial capital values;
- The NSW DPI sheep gross margins of around \$28/DSE and pasture costs of around \$50/ha per year were realistic long term trend data; and
- Any additional values for land and improvements were the additional values for rural residential or other externally induced values beyond agriculture itself.

As a check of the survey advice a review of some 20 properties listed for sale was undertaken by the project team. This second survey of Yass located real estate agents focused on the location, scale, general attributes and productivity issues of each holding which then lead into a simple analysis of the structure of the anticipated market price.

As the individual property data has a measure of confidentiality and commercial sensitivity, the list and outcomes are not included in this Review. However, the nature of responses to the questioning and the survey outcomes provide comfort to and aligns with some 40+ years of professional experience in such matters.

The net outcome is that the data in the above dot points are sound and rural residential values are not always logical. At the bottom end of the rural residential market it seems that buyers have around \$200,000 to \$300,000 to spend on an area of land in a locality they prefer. If the area is 10 ha then the total is spent on the 10 ha. If the lot is 100ha then the same sum is spent but the average per ha is 10% of that paid for the smaller 10 ha lot. Infrastructure is additional.

As the financial capacity of a rural residential buyer increases then the amount paid for a parcel of land is as much driven by the specific location, site specific circumstances and personal desires of the buyer/developer which may be as much as \$2.0M before adding houses and other infrastructure.

The larger and commercially driven farm business attempt to buy additional land at those values which reflect their need to achieve a commercial return. Where the rural residential market is significant the commercial farmers are reluctant buyers and become averse where the rural residential component is too high to justify the capital outlay.

In essence, the real estate market is not always logical and has little to do with reality for commercial agribusiness although there does seem to be a ready market for established rural residential allotments when owners decide to move on and sell - up.

3.6.3 Simple Commercial Agribusiness Analysis

Using the data from the above sections 3.6.1 and 3.6.2 a simple balance sheet and profitability analysis can be developed to describe a commercial agribusiness with minimum business critical mass in the Yass Valley LGA in 2014 values of a dollar. For simplicity a business of 10,000 DSE at an average base stocking rate of 9 DSE per productive hectare will be assumed.

It is noted that this exemplified and modest business is well above an average size based on holding size data depicted in section 3.4.1 but does demonstrate the constrained business returns where business critical mass is lacking.

The balance sheet for the 1,150ha business at “agricultural” values would be of the order of:

Land – pastures established with fences and water (10,000DSE * \$325/DSE)	\$3.25M
Improvements – housing, sheds, yards	0.90M
Livestock – 10,000DSE * 460/DSE	0.60M
Plant, equipment and vehicles	0.50M
Operating capital	0.25M
Total	\$5.50M

Profitability of the business would approximate as follows:

Revenue	Owned stock	10,000DSE * \$28/DSE	\$280.0K
	Traded stock	300 steers * \$150/steer	45.0K
	Sundry	Hay, seed, grain, contracting, etc	20.0K
		Total Revenue	\$345.0K
Expenses	Overhead		\$50.0K
	Variable unallocated		30.0K
	Variable allocated	Stock	-
		Pastures	50.0K
	Management drawings		70.0K
	Bank fees and operating funds		5.0K
	Capital renewal provision		20.0K
		Total Expenses	\$225.0K
		Debt free profit (EBIT)	\$120.0K
		Return on assets (EBIT yield)	2.2%

- The return on funds invested are modest at best;
- Business growth will require reduced living standards as the owners drawings will need to be reduced to subsidise the growth;
- Productivity could be increased but at an increasing operating cost on top of a need for more capital; and
- Productivity increases will increase risk and require increased management skills.

Assuming the maximum desirable debt servicing capacity is 50% of EBIT or \$120.0K
* 50% = \$60.0K which, when amortised over 15 years at 10%, then:

- The maximum desirable debt for this business would be \$450.0K; and
- Minimum desirable equity would be 92%, say 90%

It should also be noted that the above calculations do not include any provision for the additional capital value locked up by an already existing rural residential value which will constrain at best, any capacity to expand the multiple of 3 to 4 commented upon in the above section 3.6.1.

Should the above exemplified 1,150ha business have an additional rural real estate component value of say \$5,000/ha, the total balance sheet would increase by \$5.5M to \$11.0M. In this case the profitability of \$120.0K and maximum debt servicing capacity of \$50.0K would remain the same but the minimum desired equity would increase to around 96%.

3.6.4 Review of Current Alternative Industries

Agriculture in the Yass Valley LGA has been dominated by livestock grazing based on improved pastures. In more recent times there has been growth in niche industries such as wine grapes, alpacas, mushrooms, goats, horses and sundry horticultural industries encompassing vegetables, trees and berries.

With the exception of the livestock industries and broadacre cropping in the north - west section of the Yass Valley LGA, the new industries do not indicate a potential for achieving individual business BCM or industry critical mass (ICM) within the region.

Some broad observations on each of the industries are:

- Wine grapes – it is obvious that individual businesses have achieved a measure of success in producing high quality wine in sufficient volumes to develop niche market penetration. It is also noted that there are over 35 wineries currently operating within the Yass Valley area including 7 in the Murrumbateman locality. There are a number of separately owned vineyards that are associated with small wineries which largely service the tourism sector. At a capital cost of \$30,000/ha to \$40,000/ha (net of land purchase, a house and sheds, let alone a winery) a vineyard of around 150ha may be required to achieve BCM. There are no vineyards of this scale apparent. In a national benchmarking study by the wine making industries in or around 2005 (reference not available) it was claimed that there were over 2,000 wineries in Australia with over 90% of those wineries not viable as a stand - alone business. This would suggest that a majority of the vineyards and associated wineries in the Yass Valley are not viable as stand - alone commercial agribusinesses despite their seemingly sound management. In addition, due to the smaller properties producing relatively low volumes of wine grapes, it is expected to be hard to achieve a larger wine grape industry within the Yass Valley on the available landscapes, especially since it is known the industry already crushes a significant proportion of their output outside the region.
- Sheep and cattle – there are a number of grazing businesses with BCM. This is evidenced by both the holding information provided by the Yass Valley LGA (see figure 8 in section 3.4.1) as well as advice provided by Real Estate Agents and DPI staff. Whether that BCM can be maintained over time will be subject to their financial and managerial capacity and commercial prudence in expanding and increasing intensity. Most pastoral businesses are advisedly

operating their core enterprise at around 70% to 75% of production potential and utilise surplus feed with traded and/or agisted cattle. This relatively conservative approach to core stocking levels is commercially prudent.

- Broadacre cropping – an area west of the Barton Highway is advisedly suited to broadacre cropping but is not used primarily for cropping and preferably retained as grazing lands given the nature of the businesses owning that land. Similarly the scale for cropping does not appear to be sufficient to justify the high capital cost of specialised plant and equipment. In the broadacre cropping areas north - west section of the Yass Valley LGA, those able to move to large scale broadacre cropping are doing so and that area is becoming renown for reliable cropping, scale of operations, consistent high yield, supporting industries and services and is consistent with the broader landscape and such farming systems in neighbouring shires. In broad terms broadacre cropping will extend to wherever it can do so within the bounds of commercial prudence, but that extent within the Yass Valley LGA is limited by landscape issues.
- Other animal industries – these include alpacas, goats, horses and some poultry. These industries largely centre around smallholdings used in conjunction with rural residential purposes. These niche industries are unlikely to achieve BCM and will require support from off - farm income:
- Horticulture – A total of 92 ha of plantings are spread between 37 businesses. The observation is that these are basically niche industries requiring off - farm income to support their production.
- Other – these are relatively small in number but generally high value agricultural businesses owned by high net worth owners whose primary interest is as much in the land itself as a long term capital growth strategy rather than in the profitability of the operations on top of that land.

Generally there are two competing sectors being the broadacre grazing intermingled with a rural residential and/or rural lifestyle industry associated in many instances with niche production practices. These smaller businesses have little to no chance of stand - alone commercial success without the support of off - farm income.

3.6.5 Agribusiness Skill Sets

It is not a simple process to change industries in a farming business. A key component of success in change is the nature of the managers' skill sets. For example:

- A grazier is often inherently trained to be a grazier with an eye and appreciation for livestock. The skill set includes an inherent ability to look forward to emerging “animal” linked production problems and address those problems before they become a major issue;
- A farmer/cropper is similar to a grazier in that a reasonable farmer will see farming related production problems emerging and address such problems early; and
- Horticulture/vegeculture/viticulture – these industries have moved well beyond the local market garden stage and are technically fast moving and fully value - chain driven. It takes special skills to be successful in these industries and it is the top 10% with sound BCM and end - user relationships to do more than survive.

- There is no evidence of widespread local or regional skill - sets beyond grazing to develop successful new regional agribusinesses in new industries in the Yass Valley LGA. There is evidence of small scale success with cottage and tourism based industries supported by a usually separate and significant revenue stream, often unrelated to agriculture.

In essence the capacity to make major agribusiness changes and develop new significant industries is relatively small. This is not a negative comment but more a reflection of the constrained land quality and the need to continue to improve performance in current industries rather than “chase rainbows”.

3.6.6 Land Management Issues

Based on a recent limited tour of the Yass Valley LGA the following broad and generalised comments can be made as to the nature and quality of land management:

- Broadacre Farms – these appear to operate on a responsible resource stewardship basis and it could be said that the majority care for their land and their natural assets within the bounds of commercial prudence. Despite this it is noted there is a relative lack of perennial groundcover and in particular in the planting of trees and shrubs with which to manage local and regional recharge and discharge issues within the general landscape occupied by these businesses; and
- Small Sub - Commercial Farms – dominated by rural residential and small lot farms. The general observation is that these businesses tend to plant more trees and as such have the potential to have better control over landscape recharge and discharge issues. A check on this assessment through a review of Google Earth imagery supports the short inspection of the Yass Valley LGA.

General weed control appeared to be better on the smaller properties than on the larger properties although this comment does in any way denigrate the management capacity of the broadacre landholders. Moreover it reflects the commercial approach by those time constrained and cost driven broadacre landholders and the desire for general neatness etc within the smaller holdings. Yass Valley Council staff (P. De Szell pers. comm) indicated that entry onto small properties for weed control by the Weeds County Council is generally welcomed and co-operation is generally highest on the small holdings.

3.6.7 Protection of Agricultural Lands

The principle of protecting productive agricultural land and ensuring its availability for future generations is fully concurred with. In most local government areas the “protection of agricultural lands” policy is able to be administered in a realistic and pragmatic manner despite some and generally not excessive pressures to the contrary.

However, within the Yass Valley LGA, and in particular the southern to south-east sector of the Yass Valley LGA closest to Canberra, the rural residential pressures are abnormal and have had a major and often negative impact on adjacent and/or nearby traditional agricultural businesses. Those impacts appear to be more financial rather than being a conflict in the management of resources. However, the issues of straying dogs, poor weed control and other similar issues commonly associated with small holdings/rural residential holdings and the larger traditional holdings continue to be a problem. The small number of absentee owners and the interest they take in managing their small farms may contribute to these issues been less prevalent than

is usually the case. The remainder of the Yass Valley LGA is not subjected to similar conflicting problems to the same extent except in particular localities such as a likely desire for small land plots around Burrinjuck Dam.

The social issue of particular concern is that the price of land has advanced to a level which is far beyond its capacity to be used as a normal farming operation, and the capacity of commercial agribusiness to grow ahead of the forever declining terms of trade necessary for long term business survival.

The net conclusion is that with the future growth of Canberra continuing to be strong over long timeframes the pressure of rural residential and small lot residential holdings within particularly the southern sections of the Yass Valley will force the ultimate sub - division of the remaining larger and principally agricultural holdings. The key issue to note is that it is “when” rather than “if” there will be such changes and that change will be mostly driven at the passing of the farm business asset from one generation to the next.

There appears to be two distinct rural lot size zones throughout the Yass Valley LGA. The southern to south - eastern zone with proximity to Canberra will have its boundaries continually moved north as pressures to move out of Canberra increase. It is the management of that transition zone over time that will play a key role in determining application and management of minimum lot sizes in the Yass Valley LGA.

On this basis there is a pressing need to consider the role of at least two minimum lot size standards being one for lower lot sizes in the southern sections and another a larger minimum lot sizes in the northern and western sections of the Yass Valley LGA as supported by land holding and land value figures.

3.7 Concluding Comments

At pages 7 to 9 of the Planning Teams report of 4 October, 2013 is a list of the thirteen arguments put forward by Council in support of their planning proposal and the subsequent Teams responses. The following is a succinct review of those arguments in corresponding order.

1. Proximity to the ACT (a) – it is agreed proximity will support small lot agricultural production but only as a component of regional tourism. The diverse nature and aspirations of the small lot holders are not expected to drive the development of sustainable industry sector as such.
2. Proximity to the ACT (b) - It is also agreed that small lot rural residential is attracting people with cash but is questionable that this cash is predominantly spent locally. The project team is advised and also agrees that people living in Yass Valley LGA but working in Canberra will buy most needs in Canberra when at or travelling to and from work;
3. Responding to demand – fully agreed and self-evident that small lots are meeting a demand for a rural lifestyle. The surveyed real estate agents made the supporting point that when a rural residential block is listed for sale there is a solid interest from new prospective buyers;
4. 80 ha already not productive – fully agreed and based on early calculations, even farms over 1,000ha have questionable long term commercial sustainability in the south eastern section of the Yass Valley LGA as exemplified in section 3.6.3;

5. Enable niche production – agreed although the nature and scale is modest, is usually more tourism related and could often be in the “chasing rainbows” category. It is expected that any funds generated by the rural residential sector would be largely spent in Canberra rather than in the Yass Valley LGA;
6. 20 ha and 40 ha suited to intensive agriculture – other than a very few limited exceptions, this is not agreed with in terms of commercial sustainability;
7. Existing farmers reinvest – selling the “back paddock” is rarely a successful strategy for long term commercial sustainability as it reduces the underlying production capacity without materially reducing the not insignificant fixed overhead and variable unallocated costs of running a commercial business;
8. Support tourism – agreed with and the team notes the benefits of a growing tourism industry to market niche agricultural products and to provide additional and concurrent economic activity;
9. Provide flexibility – only in terms of providing an exit strategy for current commercial agribusinesses to retire or to move to a new and more commercially sustainable region;
10. Increased borrowing power – strongly disagree. It is surplus cash from “management” based profits (not taxable profits) that services debts. Having higher land values can lead to reduced capacity to meet debt commitments due to higher rates etc;
11. Subdivision provides an economic buffer – only as an enhanced exit strategy for moving to a new less overpriced region or for retirement. This is simply a variation of the not so sound “selling the back paddock” strategy;
12. Better intergenerational transfer – do not agree as the chances of successful long term outcomes is believed to be diminished; and
13. Better environmental outcomes – not fully proven but on the limited evidence to date, this claim may have some modest merit.

4 Economic issues

4.1 Approach

The preceding Chapters have canvassed a wide range of issues relevant to the Rural Lands of the Yass Valley LGA. The following Chapter will briefly provide some economic context and analysis to underpin the review and will focus on:

- Assessing the contribution of agriculture to the Yass Valley LGA economy;
- Impacts of the ‘Canberra Effect’ on land prices; and
- Impacts of Planning Proposal on economic sustainability of the rural sector.

4.2 Agriculture

The general structure of the economy of Yass is relatively typical of rural and regional centers in NSW. However, it is significantly different to the State as a whole.

Agriculture dominates land use in the Yass Valley LGA (approximately 90% of land use). However, its contribution to the economy is estimated at around 19%, round 10 times the State average (see table 2). Primary industries also account for around 8% of employment in the Yass Valley LGA.

Industry	LGA – value of industry (\$ mill)	LGA– industry contribution (%)	NSW– industry contribution (%)
Agriculture, Forestry and Fishing	184.3	18.7	1.9
Mining	9.7	1.0	3.3
Manufacturing	95.8	9.7	14.8
Electricity, Gas, Water & Waste Services	78.6	8.0	3.4
Construction	198.4	20.1	10.2
Wholesale Trade	26.0	2.6	5.2
Retail Trade	35.9	3.6	4.2
Accommodation and Food Services	57.8	5.9	3.5
Transport, Postal and Warehousing	24.8	2.5	5.7
Information Media and Telecommunications	10.7	1.1	4.4
Financial and Insurance Services	15.6	1.6	9.8
Rental, Hiring and Real Estate Services	13.4	1.4	3.0
Professional, Scientific and Technical Services	60.0	6.1	8.8

Administrative and Support Services	29.0	2.9	4.3
Public Administration and Safety	53.4	5.4	5.2
Education and Training	34.0	3.5	3.5
Health Care and Social Assistance	36.2	3.7	5.3
Arts and Recreation Services	6.0	0.6	1.3
Other Services	16.3	1.7	2.1
Total Industries	986	100.0	100.0

Source: National Institute of Economic and Industry Research (NIEIR) 2014.

Table 2: Structure of Yass Valley LGA economy by industry and value (2012/13)

Another major difference in the makeup of the Yass Valley LGA economy compared to the State economy is the contribution of construction which is twice the State average, partially on the back of the Canberra effect on residential construction.

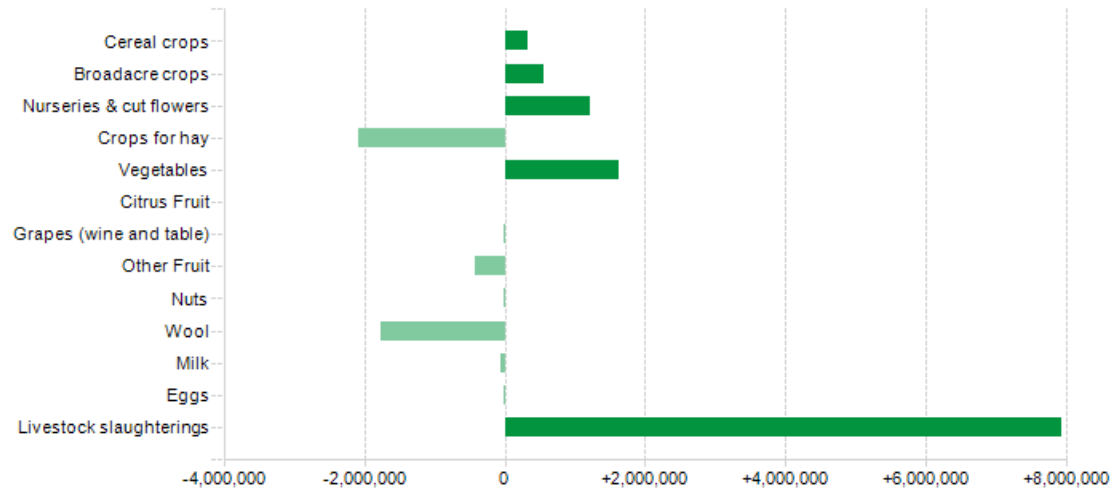
The value of primary industries is dominated by wool production (33% of total value) and livestock slaughterings (46% of total value). This is shown in Table 3 below.

Commodity	LGA value of production (\$)	LGA % of total	NSW % of total	LGA (% of NSW)
Cereal crops	2,904,811	4.6	30.0	0.1
Broadacre crops	1,104,434	1.8	16.0	0.1
Nurseries & cut flowers	1,497,593	2.4	2.7	0.5
Crops for hay	2,827,614	4.5	2.4	1.0
Vegetables	3,770,933	6.0	3.8	0.8
Citrus Fruit			0.9	
Grapes (wine and table)	387,520	0.6	1.5	0.2
Other Fruit	98,755	0.2	2.4	0.0
Nuts	1,547	0.0	0.6	0.0
Wool	20,414,387	32.6	7.3	2.4
Milk	32,892	0.1	4.3	0.0
Eggs	30,133	0.0	1.7	0.0
Livestock slaughterings	29,199,485	46.7	26.3	0.9
Agriculture - Total value	62,557,542	100.0	100.0	0.5

Source: Australian Bureau of Statistics, Value of Agricultural Commodities Produced, Australia, 2010-11. Cat. No. 7503.0

Table 3: Direct value of primary industries – Yass Valley LGA (2010/11 estimates)

Data from the agricultural census indicates an increase in the value of production for many commodities between the 2005/06 agricultural census and the 2010/11 census. This is particularly the case for livestock slaughterings. However, ABARES and MLA data shows that prices also increased markedly over the same period (MLA 2014a, MLA 2014b, ABARES 2014). In effect, much of the appearance of growth is simply a reflection of commodity price fluctuations.



Source: Australian Bureau of Statistics, Value of Agricultural Commodities Produced, Australia, 2010-11. Cat. No. 7503.0

Figure 10: Change in value of primary industries (2005/06 to 2010/11)

While there is significant fluctuation from year to year, the medium term outlook for the dominant agricultural industries in the Yass Valley LGA is relatively flat. For example:

- **Sheep.** MLA's (MLA (2014a)) outlook for up to 2018 is for no real change in sheep numbers, and declines in slaughterings, production, exports and domestic consumption.
- **Beef.** MLA expect a similar overall trend for beef, with general declines in production and exports (MLA (2014b)).
- **Horticulture.** In addition, domestic horticultural markets tend to broadly grow in line with population growth in key markets, so it is unlikely any major expansion is likely in the foreseeable future.
- **Wine grapes.** Further expansion of the Australian industry is stymied by a number of market and policy factors. It is more likely that wine grape production in Yass Valley LGA will remain a niche industry, closely aligned to the regional tourism industry, particularly visitors out of Canberra (DAFF (2011)).

While it is clearly evident that agriculture is the mainstay of the Yass Valley LGA economy, the longer term trend is probably for little (if any) material growth in production for most commodities. As a consequence, the relative importance of agriculture will decline as the population grows and other industries grow with population-induced demand.

4.3 Analysis of issues

This section summarises analysis of key economic issues that provide the economic context for any rural land use planning decision.

4.3.1 The incidence of Canberra commuters

There is evidence to suggest that much of the population growth and pressure for land use change is driven by people residing in Yass Valley LGA, but working in the ACT – the “Canberra effect”.

The Canberra effect can be broadly understood through the analysis of Census data. Table 4 below shows the numbers and percentages of employed people in Yass Valley LGA and where they work. A staggering 49.7% of the working population in Yass Valley LGA actually works outside the LGA (many in Canberra).

Category	Number	%
Live and work in the area	2,826	36.4
Live in the area, but work outside	3,860	49.7
Work location unknown	1,085	14.0
Total employed residents	7,771	100.0

Source: Australian Bureau of Statistics, Census of Population and Housing 2006 and 2011

Table 4: Employment location of residents

Further evidence can be taken from the Census employment by industry data. Analysis of that data indicates:

- 19.1% of workers living in Yass Valley LGA work in public administration, compared to 7.2% in rural NSW.
- 8.2% of workers living in Yass Valley LGA work in professional, scientific and technical services, compared to 4.6% in rural NSW.
- Around 44% of workers living in Yass Valley LGA work in industries dominated by the public service¹, compared to 33% in rural NSW. Around two thirds of the growth in employed persons in Yass between 2006 and 2011 was in industries dominated by public sector employment.

The bottom line is that there is clear evidence that the major driver of population growth and changes in land use is the Canberra effect.

4.3.2 The Canberra effect and the impact on land prices

There is clear evidence to suggest that much of the development in the Yass Valley LGA in recent years has been driven by the large rural residential property market, where many of the residents probably work in Canberra. There are two economic relationships that could be expected from the Canberra effect.

¹ This includes: professional, scientific and technical services; public administration; education and training; and health care and social assistance.

- Properties with longer commutes to Canberra should have a lower value per ha (all other things being equal). This is simply a reflection of the relative location.
- Larger properties are likely to have a lower value per ha (all other things being equal). This is simply a reflection that significantly larger properties require more effort and expense in land management and will be less appealing to people looking for large rural residential properties.

Using property data for all properties >15 ha², an econometric model was developed to assess the relationship between the travel time³ to Canberra and block size and the respective impacts on land value (\$/ha). Separate models were run for properties that were in the ranges of: 15-30 ha; 30-50 ha; 50-80 ha; and >80 ha. Results of the analysis are shown in the table below.⁴

Property size range (ha)	Adding 1 ha to block size impacts value (\$/ha) by...	Adding 1 minute to commute time impacts value (\$/ha) by...
15 – 30	-\$860	-\$430
30 – 50	-\$200	-\$160
50 – 80	-\$150	-\$135
Greater than 80	-\$<5	-\$80

Source: MainStream analysis based on data provided by Yass Valley Council

Table 5: Impact on land value relating to land size and travel time to Canberra

The key points to note from the analysis are:

- The value of properties (\$/ha) in the 15-30 ha range decline rapidly as commute times to Canberra increase (-\$430/ha per additional minute of commute time from the ACT border). Clearly there is a measurable market premium for land located closer to Canberra.
- The value of properties (\$/ha) in the 15-30 ha range declines as the area of the property increases from 15 ha. This potentially indicates a consumer preference to avoid the additional effort and cost of managing properties greater than 15 ha. This outcome is also consistent with findings in Chapter 2 of this Review which indicate that lots over 16 ha in area tend to be used predominantly for agricultural land uses with dwellings being an ancillary land use.
- The positive relationship between land prices and distance to Canberra (i.e. an estimate of the ‘Canberra effect’ on land prices) was only statistically significant for land up to 30 ha. This indicates two things. Firstly, providing the land is within a feasible commuting distance to Canberra, and that land is less than 30 ha, there is no meaningful difference to buyers between land that is zoned large residential or rural. Secondly, parcels larger than 30 ha were probably not in demand for rural residential purposes.

² Data provided directly by Council.

³ For this we estimated travel time for each property using Google Maps (travel time estimation function). For simplicity, we assumed each individual property was located at the center of the suburb.

⁴ The econometric model developed was statistically significant and met all relevant tests for each of the property size ranges assessed. The explanatory power of the model was reasonably high (r^2 of 50.2%, meaning over half of the variance in land values was explained by changes to travel time).

- The relationship between land price and distance to the Township of Yass was also tested. The econometric model was not statistically significant. From this it can be concluded that while there is a Canberra effect, there is not a “Yass effect”.

The implications of this analysis for the planning policy are that:

- Any properties that are created by subdivision that are <30 ha, and are within a reasonable commute to Canberra will attract a higher \$/ha “amenity value” than broad acre farmers are prepared to pay. They are likely to be considered large rural residential properties by the market, irrespective of the actual intended land use outcome (eg boutique farming, equine industry, viticulture, horticulture etc) and/or Council rating classification.
- Under the averaging rule proposed, if an 80 ha parcel was within a reasonable commute of Canberra, proponents would probably maximise returns by creating one smaller lot (say 20 ha) (more attractive to the more lucrative rural residential market) and a larger balance block that retains more appeal to a primary production market (farm income supplemented by off-farm income).
- It is unlikely that blocks further away from Canberra (the north and west of the LGA) would hold much appeal for the lucrative large rural residential market (with the exception of a small market for properties close to Yass Township, catering to people actually working in Yass).
- Land consolidation within the Yass Valley LGA is currently hampered by inflated agricultural land prices. The change in policy to further reduce the averaging provisions will not significantly add to these existing difficulties.
- Because of price premiums already in place for land in suburbs such as Murrumbateman (or closer to Canberra), that land is less likely to be viable for broad acre agriculture because of the higher capital costs that must be met. This is irrespective of the planning policy.
- There is limited demand for rural living opportunities in the western areas of the LGA. Moreover development costs associated with infrastructure provision would lend weight to Council statements within the Planning Proposal that the reduction in averaging provisions will not lead to significant further fragmentation across the broad acre areas of the rural landscape.
- While there are amenity benefits from living in rural areas in proximity of Canberra that result in increased land values there are also disadvantages with isolation from urban services. These disadvantages increase with commute time leading to commensurate land values being discounted for isolation with negligible premium for larger lot sizes.
- Finally, as noted above at Chapter 2 land is not the only input into agricultural production and as land values increase, technology tends to adapt to reduce the importance of land as input.

The bottom line is that market forces may have already created land price premiums in some areas of the Yass Valley LGA that effectively make broadacre agriculture unsustainable.

4.3.3 Agricultural commercial viability (broadacre)

One of the major areas of contention in the previous reports developed has been the potential of the planning policy changes on the viability of agriculture in Yass Valley LGA. The State has particularly raised the impact of changes to minimum lot sizes as smaller rural properties might not be viable. However, many of the farm properties in the Yass Valley LGA are probably not commercially viable anyway, particularly without substantial off-farm income. The commercial viability of existing farms and potential changes to minimum lots are outlined below.

Data supplied by Yass Valley Council indicates a total of around 344,000 ha in the LGA. Properties greater than 80 ha that are potentially affected by the planning proposal represent:

- Approximately 89% of the total area.
- Approximately 27% of the number of properties.

The cumulative area and number of properties is shown in the figure below.

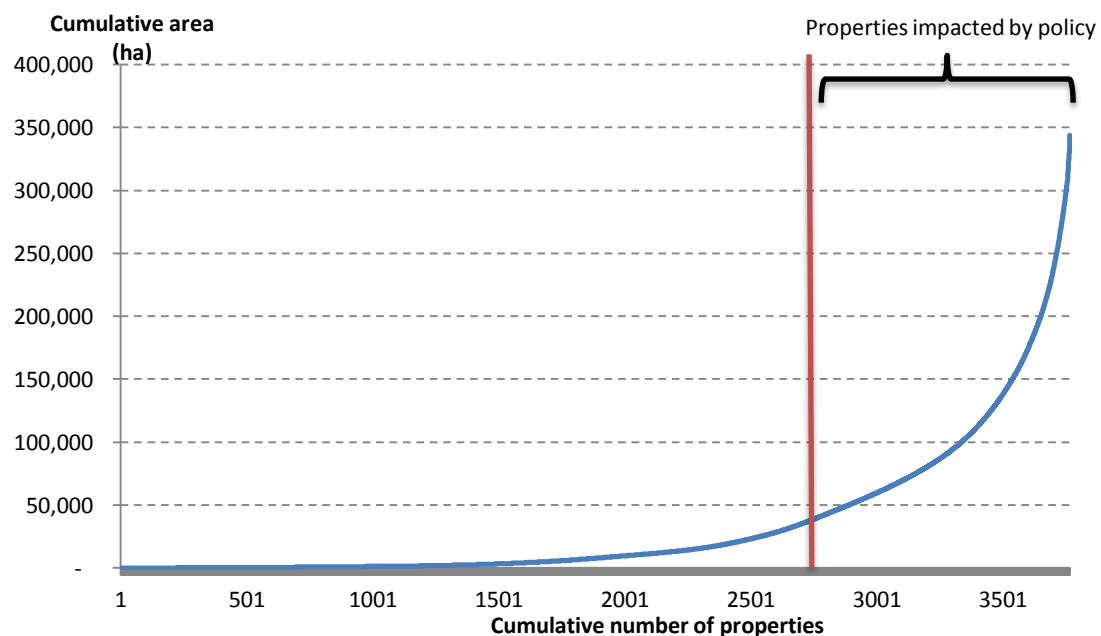


Figure 11: Properties captured by policy change (Source: Yass Valley Council)

As previously outlined in Chapter 3 (Resource & Agricultural Management Issues) it is important to assess whether the planning changes would have a material impact on the viability of agricultural enterprises and the critical mass industries (e.g. sufficient supply of livestock slaughterings to provide sufficient throughput for meat processors). This necessarily goes beyond analysis of gross margins (revenues less variable costs), and requires a more fundamental analysis of the enterprise that includes fixed costs such as interest costs, other overheads, asset renewals/replacement etc. This is particularly important, as the relatively small nature of many of the holdings in the LGA may infer that many properties are not commercially viable without significant off farm income anyway.

Based on data from several sources, we have established an economic model to broadly assess the financial viability of a sheep enterprise under a number of input assumptions⁵ and property sizes. This can be used to:

- Provide a broad indication of the commercial viability of farms in the region, to determine whether they are currently commercially viable.
- Gain some insights on whether the proposed changes would trigger any material shift in commercial viability across the LGA.

Ranges of key assumptions used in our model are shown in the table below:

- Pessimistic (low revenue, high cost).
- Medium (most likely long term outcomes).
- Optimistic (high revenue, low costs).

The column marked 'medium' outlines the more likely long-term assumptions for the region and provides the most reasonable base case for analysis.

Measure	Pessimistic	Medium	Optimistic
Asset base			
Land value (\$ per ha)	\$4,200	\$2,700	\$1,200
Improvements – house, sheds (\$ per property)	\$400,000	\$300,000	\$200,000
Improvements – fencing etc. (\$ per ha)	\$600	\$600	\$400
Plant equipment and vehicles (\$ per property)	\$300,000	\$200,000	\$100,000
Assumed average asset life	20	30	40
Other fixed overheads – insurance, accounting, legal etc (\$ per property)	\$15,000	\$10,000	\$5,000
Interest rate on debt (%)	8.5%	7.5%	6.5%
Drawings by owner (\$)	\$70,000	\$60,000	\$50,000
Farm equity (%)	55%	75%	95%
Long-term stocking rate (DSE per ha)	3.0	7.5	12.0
Gross margin (\$ per DSE).	\$18.00	\$26.00	\$32.00

Source: MainStream

Table 6: Assumptions underpinning economic modelling

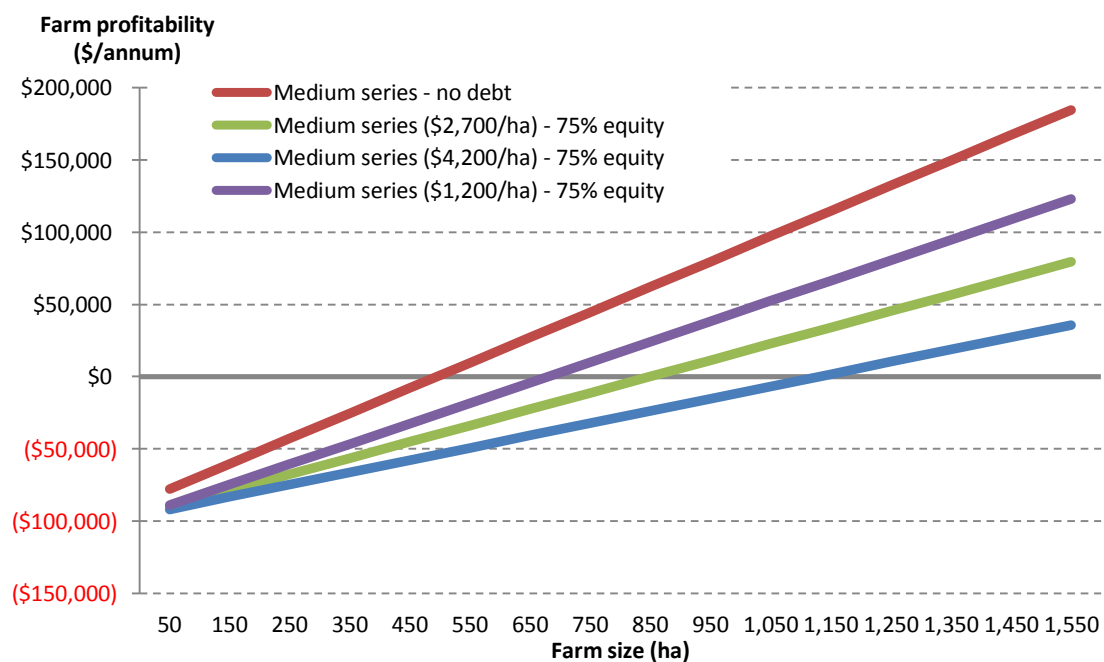
The model assesses the relationships between size and financial viability, under the assumptions in the table above. Figure 12 below shows the relationship between property size and financial viability where 'medium' assumptions have been used for

⁵ Assumptions were based on a review of information and data from a number of sources including: ABARES farm surveys; MLA industry analysis; NSW DPI production information and gross margin budgets; agribusiness interest rates; and analysis of property data provided by Yass Valley Council.

improvements, asset lives, overheads, stocking rates, and gross margins. Four scenarios were then assessed:

- No debt. This assumes a farm has no debt, and avoids any interest payments.
- Three scenarios where the owners of the property have 75% equity⁶, but must meet interest costs on debt financing for the remainder of the asset base. This is further separated into scenarios based on three levels of land value:
 - \$2,700 per ha. This is based on analysis of data provided by Yass Valley Council and approximates the average value for farms >80 ha across the LGA.
 - \$4,200 per ha. This represents land values for farms that have closer proximity to Canberra, and have greater market potential for subdivision.
 - \$1,200 per ha. This represents land values that are not impacted by any Canberra effect (generally larger properties in the north and west of the LGA).

The figure below shows the outcomes from the modeling of these four scenarios.



Source: MainStream analysis

Figure 12 Relationship between size and profitability

The key points to note are:

- Even where a farm carries no debt, it is unlikely to be viable and provide even a basic wage for the farmer until it is larger than about 450 ha. Of the properties in the LGA that are >80 ha, only 17% are greater than 450 ha. This

⁶ ABARES data indicates average industry equity rates of around 75%.

infers that the vast majority of rural properties in the LGA are not commercially viable without significant off-farm income.

- For the area where the planning proposal is likely to have the most impact (i.e. where land values already exceed \$4,200 per ha), servicing even relatively modest debt ratios require significantly larger farms to be financially viable. For example, with a 25% debt level, a farm would need to be over 1,000 ha to be financially viable.

We tested a range of scenarios based on alternative input assumptions. **Only under the most optimistic assumptions are relatively small farms likely to be viable without off farm income. Furthermore, market-driven applications under the proposed changes to the planning regime are likely to be further concentrated in areas where commercial viability may already be very low due to relatively higher land prices.**

It should also be noted that financial viability does not ensure commercial viability, or that the farm is actually a reasonable investment. A farm investment is only commercially viable if the returns are at least equal to the reasonable return on capital given the type and risk of the investment. This should be no less than long-term interest rates (currently 7.5% per annum).

Using the assumptions above, we also ran a number of scenarios to determine under what assumptions (productivity and revenues, land values, costs, property sizes) does farming actually provide a commercial return. Our analysis indicates that only where low land values and high productivity levels and process are assumed is farming genuinely commercially viable. Under virtually all scenarios assessed, investments in sheep farming would only appear to be commercially viable when consistent capital gains can be achieved to offset for shortfalls in revenues. This was particularly the case for land with values >\$4,200 per ha.

The bottom line is that most broadacre farming in the areas likely to be impacted by the change in planning policy is probably highly reliant on off farm incomes and/or significant capital gains to be commercially viable.

It is highly unlikely that the proposed policy changes would result in agriculture moving from a commercially viable status to a non-viable status. The stand-alone commercial viability of broadacre agriculture in the region is already questionable in the region, except under very optimistic assumptions and for the largest farms.

4.3.4 Other niche industries

One of the major rationales raised by the Rural Land Planning Committee for the changes to the planning rules was a need to facilitate development in niche activities such as wine and mushrooms etc. The data inculcates that these activities are not significant in Yass Valley LGA. Furthermore, much of the niche production is already happening on smaller blocks available through the existing planning rules. In effect, the existing planning rules do not appear to be an impediment to niche agriculture development.

The proposed changes are unlikely to have any material impact on the development of niche agricultural activities.

4.4 Concluding Comments

Key points to note from the economic analysis are:

- While agriculture is a major industry in Yass Valley LGA and its importance to the local community should not be underestimated, there is little to suggest the industry will expand or become more prosperous in the foreseeable future.
- As the population of the Yass Valley LGA continues to grow, the local economy will diversify, reducing the relative importance of agriculture in the region.
- Analysis of demographic data shows clear evidence that the major driver of population growth and pressure on changes in land use in the LGA is the 'Canberra effect', where an increasing proportion of Yass Valley residents actually work in Canberra.
- Econometric analysis of property prices and location show a significant 'price premium' for land closer to Canberra, specifically blocks smaller than 30 ha. In effect, the 'Canberra effect' has inflated land prices in some areas to a point where consolidation to achieve economies of scale in agriculture is not commercially feasible.
- The econometric analysis also showed, within properties in the 15 – 50 ha range, a price premium (\$/ha) for smaller blocks. This reinforces the fact that prices for relatively smaller rural blocks closer to Canberra are driven by rural lifestyle opportunities, not agricultural production potential.
- Our economic analysis of broadacre farming indicates that the most of rural properties in the region are not commercially viable under the existing planning arrangements anyway.
- It is highly unlikely that the proposed policy changes would result in agriculture moving from a commercially viable status to a non-viable status. The stand-alone commercial viability of broadacre agriculture in the region is already questionable in the region, except under very optimistic assumptions (e.g. no debt, low land values, higher production and prices) and for the largest farms.
- While the Rural Land Planning Committee argued that the changes were necessary to facilitate development of niche agriculture, it would appear that the current planning policies already provide sufficient land to meet the needs of niche agriculture developments.

The bottom line is that the proposed changes to minimum lots will not have a material impact on the viability of agriculture in the region. They may however, go some way to addressing emerging demand attributable to the Canberra effect.

4.5 References

Australian Bureau of Statistics (2012) Value of Agricultural Commodities Produced, Australia, 2010-11. Cat. No. 7503.0

Australian Bureau of Statistics (2012) Census of Population and Housing 2006 and 2011

ABARES (2014) Australian lamb: financial performance of slaughter lamb producing farms, 2010–11 to 2012–13 is available at daff.gov.au/abares/publications.

DAFF (2011) Agriculture and Food Industry Stocktake Industry Profile: Wine Grapes and Wine

MLA (2014a) Australian Sheep. Industry projections.

MLA (2014b) Australian Cattle. Industry projections.

5 Planning Proposal Consistency

5.1 Approach

Having regard to the above background discussion in respect of relevant Planning, Natural Resource / Agriculture and Economic issues across the Yass Valley LGA the next task is to analyse the level consistency of the Planning Proposal itself with the following strategic planning documents:

- Section 117 Directions 1.2 (Rural Zones), 1.5 (Rural Lands) and 5.1 (Implementation of Regional Strategies);
- State Environmental Planning Policy (Rural Lands) 2008; and
- Sydney Canberra Corridor Regional Strategy.

5.1.1 Section 117 Directions

In summary the following comments are provided in respect of relevant s.117 Directions.

s.117 DIRECTION	COMMENT
<i>1.2 Rural Zones</i>	Consistent. The planning proposal does not recommend that land zoned Rural be rezoned for residential, business, industrial, village or tourism purposes. Direction 4(b) does not apply to the Yass Valley Local Government Area.
<i>1.5 Rural Lands</i>	Consistent. Refer to following discussion in respect of SEPP (Rural Lands) 2008 – Rural Planning Principles and Rural Subdivision Principles assessment.
<i>5.1 Implementation of Regional Strategies</i>	Consistent. Refer to following discussion in relation to the Sydney Canberra Regional Strategy.

5.1.2 State Environmental Planning Policy

The requirements of the SEPP (Rural Lands) 2008 are clear and concurred with from the perspective of best practice natural resource management which is the protection of quality agricultural land for the use of future generations and the benefit of society in general.

However in particularly the south - east section of the Yass Valley LGA there are some mitigating and underlying circumstances which require special attention. These are addressed as:

- Agriculturally – with large scale pastoral pursuits dominant in the Yass Valley LGA increasingly large parcels of land will be required for long term sustainable commercial production. However, many of the residual commercial agricultural businesses in the south to south - east have a degree of commercial sustainability in 2014 and have become largely constrained as to their potential to expand and/or increase intensity of operations. The constraints are physical at one level in that land is strongly held by generally

reluctant sellers and who are similarly constrained by the scale of funds required to purchase adjoining lands. This limits the future options and capacity of these businesses to survive beyond one or two generations subject to the point as to where each individual business maybe in its own generational cycle.

- Natural resources – on inspection of the Yass Valley LGA it is obvious there are areas of significant recharge/discharge and areas with prolonged wetness during or after extended wet periods. Whilst changes are occurring in regional hydrology and hydrogeology there does not appear to be any major deterioration in levels of salinity and/or waterlogging.
- Socially – advice of local real estate agents and DPI staff is that a number of traditional agricultural businesses have already reached a point where subsequent generations have made a decision based on social criteria to not continue when the time for actual succession arrives. This will lead to a need to sell the farm to a market place dominated by cashed - up rural residential aspirants.
- Commercial – the accelerating land values due to the population pressure arising from the growth of Canberra and the ACT have made expansion of agricultural land ownership to meet a declining terms of trade a commercially questionable strategy unless that strategy is to accrue land for no other reason than to benefit from the elevated rate of capital growth for future retirement.

From an agricultural perspective the south - east sections of the Yass Valley LGA already have an established momentum which has already undermined its viability for traditional agricultural production. That is not necessarily so for the remaining northern and western sections of the Yass Valley LGA.

In summary the following comments are provided in respect of relevant SEPP Policy statements.

RURAL PRINCIPLES	COMMENT
<i>(a) the promotion and protection of opportunities for current and potential productive and sustainable economic activities in rural areas.</i>	Consistent particularly in the context of the background Chapters and discussion above. The Planning Proposal will not in itself have an adverse or undue impact on existing and likely future opportunities for productive and sustainable economic activities across the rural areas of the Yass Valley LGA.
<i>(b) recognition of the importance of rural lands and agriculture and the changing nature of agriculture and of trends, demands and issues in agriculture in the area, region or State.</i>	Consistent having regard to the particular circumstances of the Yass Valley LGA. The Proposal will more appropriately be able to allow landuse decision making to be more consistent with the evolving rural landscape.
<i>(c) recognition of the significance of rural land uses to the State and rural communities, including the social and economic benefits of rural land use and development.</i>	Consistent. The Planning Proposal will not in itself have an adverse or undue impact on social and/or economic parameters associated with rural land use and development.

<p><i>(d) in planning for rural lands, to balance the social, economic and environmental interests of the community.</i></p>	<p>Consistent. The Planning Proposal will likely have a positive impact upon relevant social, economic and environmental interests within the community.</p>
<p><i>(e) the identification and protection of natural resources, having regard to maintaining biodiversity, the protection of native vegetation, the importance of water resources and avoiding constrained land.</i></p>	<p>The Planning Proposal is not inconsistent with the principle of having due regard to the natural resource base of the LGA. Council's LEP Natural Resource Mapping identifies areas of biodiversity significance, areas subject to groundwater vulnerability and areas subject to soil erosion and salinity. Future decision will continue to have regard to these relevant issues on an as needs basis.</p>
<p><i>(f) the provision of opportunities for rural lifestyle, settlement and housing that contribute to the social and economic welfare of rural communities.</i></p>	<p>Consistent. In addition to supporting opportunities to capitalise on the advantages of contemporary agriculture but will also create opportunities for rural lifestyle outcomes that can make positive contributions to the social capital and economic welfare of the LGA.</p>
<p><i>(g) the consideration of impacts on services and infrastructure and appropriate location when providing for rural housing.</i></p>	<p>Consistent. As noted within the Planning Proposal any allotments created in rural areas of the Yass Valley LGA will not be serviced by reticulated water or sewerage infrastructure. Any new dwelling houses will continue to rely instead on on-site effluent disposal and catchment water supply.</p> <p>In addition it is also noted that where applicable, s.94 contributions will be required in relation to road infrastructure. Adequate property vehicular access will also be required to be provided where a dwelling house is proposed. Other infrastructure provision (eg. electricity and telecommunications) will remain the responsibility of the landholder.</p>
<p><i>(h) ensuring consistency with any applicable regional strategy of the Department of Planning or any applicable local strategy endorsed by the Director-General.</i></p>	<p>Consistent. Refer to following discussion in relation to the Sydney Canberra Regional Strategy.</p>
<p>SUBDIVISION PRINCIPLES</p>	<p>COMMENT</p>
<p><i>(a) the minimisation of rural land fragmentation.</i></p>	<p>Having particular regard to the evidence based approach adopted within this Review and in particular the Agricultural and Economic analysis provided above it is concluded that the proposal is not inconsistent with this particular principle. A change to the minimum lot size provisions will simply not open the flood gates as speculated by some.</p> <p>The level of existing fragmentation across the rural lands of the LGA is not expected to significantly increase to a point where it impacts adversely on any productive rural lands of strategic or regional significance.</p> <p>Lastly it is also acknowledged that direct costs associated with the provision of infrastructure and services to any lots</p>

	created will also a key factor in minimizing fragmentation. This is already evidenced under the current 40 ha minimum in accordance with average provisions particularly across the western parts of the Yass Valley LGA.
<i>(b) the minimisation of rural land use conflicts, particularly between residential land uses and other rural land uses.</i>	Consistent. There will be little or no change to the status quo as a consequence of the Planning Proposal proceeding.
<i>(c) the consideration of the nature of existing agricultural holdings and the existing and planned future supply of rural residential land when considering lot sizes for rural lands.</i>	Consistent. The Planning Proposal is not related to the creation of rural residential allotments or the promotion of such landuses within the broader rural landscape. Rather the primary purposes of the RU1 and RU2 zones will continue to be the promotion of the ongoing rural use of land albeit across a range of lot sizes.
<i>(d) the consideration of the natural and physical constraints and opportunities of land.</i>	Consistent. There will be little or no change to the status quo as a consequence of the Planning Proposal proceeding.
<i>(e) ensuring that planning for dwelling opportunities takes account of those constraints.</i>	Consistent. There will be little or no change to the status quo as a consequence of the Planning Proposal proceeding.

5.1.3 Sydney Canberra Regional Strategy

This Strategy provides a vision for a corridor of land following the Hume Highway from Sydney to Goulburn then subsequently the primary roads from the Hume Highway into Canberra and Queanbeyan. There are a number of statements within the Strategy and these presume that agriculture can be protected and even has the potential to grow as a sustainable and viable industry along that corridor.

At Page 18 of the Strategy comment is made that the corridor has a comparative advantage in terms of food and fibre production compared to other regions because of its location along the major transport routes between the major cities of Sydney, Canberra and Melbourne.

This supposed comparative advantage is questioned in that every business and every industry forms part of a value chain and that freight is only one component of managing resources through that value chain. The capital value of land in the Yass Valley LGA will be undermining any potential comparative advantage through the transport section of the value chain.

Similarly the elevated price of land with inherent land capability constraints will be undermining the capacity of the region to develop value adding industries and/or early stage processing due to the lack of critical mass of product required to optimise the benefits of the comparative advantage within the value chain.

The Strategy also makes the comment at Page 8 that farmers will need to be able to pursue new markets and new forms of production without unreasonable restrictions on land use. Our observation and professional experience is that farmers are continually pursuing new markets and forms of production if such endeavours can provide a commercially viable outcome.

The eastern section of the Yass Valley LGA affected by the corridor strategy contains lands a mix of limited area more productive lands and other lands which constrain flexibility of production and marketing. Overall the total area and output potentials are limited. This is especially so when it is considered that the products being produced are basically bulk commodities of wool and meat. The other commodities of vegetables, grapes/wine and other intensive forms of production are minimal and essentially niche within an integrated tourism sector.

Among the regional challenges faced within the region the Sydney Canberra Corridor Regional Strategy notes:

The proximity of the Region to both the Sydney and Canberra markets and major road and rail networks facilitating the supply of produce to markets, are the key opportunities for agriculture in the Region. This enables diverse crops and agricultural activities to be pursued.

Preserving rural lands as a resource for emerging as well as existing agriculture is therefore a key challenge for the Region. The greatest pressure on the rural lands of the Region comes from the demand for rural lifestyle housing.

Fragmentation of farm holdings also can also reduce the profitability of farms, can lead to land use conflict, and increases the cost of rural lands. The proximity of farmland to major regional centres has also increased the cost of rural lands. This has led to a large number of small farms and hobby farms within the Region. With these pressures on production also come the need to adapt to new technologies, constant competition for national and international markets, as well as changing climatic patterns. Planning for rural lands must recognise that the rural landscape cannot remain fixed but must accommodate changes to ensure objectives for agriculture, as well as other objectives are met.

The value of rural lands in the Region extends beyond primary production to include cultural, scenic and environmental qualities. This is reflected in the diversity of landscapes from the farming landscape of parts of the Southern Highlands to the timbered Brindabella Ranges in the south. Accommodating this diversity and mix of rural land values across the Region will be a significant challenge. Farmers need to be able to pursue new markets and forms of production without unreasonable restrictions on land use.

Having particular regard to the Regional Strategy it is noted that the Planning Proposal contends as follows:

The ability to use 'averaging' within subdivisions will allow for a mix of lot sizes, enabling the retention of larger 'residual' lots for extensive agricultural production, as well as smaller more intensive agriculture or rural lifestyle lots. Lot averaging also allows for more site responsive lot layouts to take into account the environmental values and topography of the land.

The Sydney Canberra Corridor Regional Strategy states that: 'Population growth is being driven by people moving into the Region because of their desire to live within a rural setting, as well as those seeking more affordable housing, but with continued access to the economic opportunities provided by Sydney or Canberra.'

The issue of long term land use in peri-urban areas is raised in the strategy. The NSW and ACT Governments subsequently signed a Memorandum of Understanding (MOU) for Regional Collaboration in 2011. One of the actions under this MOU is the preparation of a strategic plan for land use and infrastructure across the ACT–NSW border, incorporating this peri-urban area. This together with a local strategy undertaken by Yass Valley Council will review land and settlement locations within this peri-urban area. It is likely that these two strategies will recommend further changes to zones or lot sizes, together with infrastructure requirements. Until such time however, it is intended that the proposed minimum lot size would act as a 'green'

buffer between urban ACT development and the existing established settlements of Yass and its Villages.

Notwithstanding a number of the comments raised within the report of Council s355 Committee the Planning Proposal itself has been clearly framed with the goal of supporting the respective objectives of the RU1 and RU2 zones while facilitating greater flexibility in the decision making process. Using an evidence based approach to review the strategic objectives of the Planning Proposal as outlined by Council officers it is concluded that the proposal is consistent with relevant regional strategy.

That is, the proposal will continue to ensure that the Yass Valley LEP 2013:

- supports the economic contribution of existing and potential primary industries to the Region;
- maintains the rural character and diversity of land values across the Yass Valley LGA, whilst acknowledging competing uses of rural land;
- takes a positive step towards addressing some of the impacts on the LGA as a consequence of peri-urban pressures on existing farming and future urban development by providing certainty for long term uses through appropriate land use zonings, subdivision controls and the identification of longer term urban release areas; and
- manages the location and impacts of rural residential development across the LGA.



APPENDIX 1 – GATEWAY DETERMINATION

Gateway Determination

Planning proposal (Department Ref: PP_2013_YASSV_003_00): to reduce the minimum lot size for subdivision and erection of a dwelling in certain rural zones.

I, the Acting Deputy Director General, Planning Operations and Regional Delivery at the Department of Planning and Infrastructure as delegate of the Minister for Planning and Infrastructure, have determined under section 56(2) of the EP&A Act that an amendment to the Yass Valley Local Environmental Plan (LEP) 2013 to reduce the minimum lot size for subdivision and the erection of a dwelling in zones RU1 Primary Production and RU2 Rural Landscape from 80ha to 40ha, amend the lot averaging clause to allow a minimum lot size of 20ha and a maximum lot size of 70ha for land zoned RU1 and RU2 and to permit 'dual occupancies' in certain rural and environmental protection zones, where a dwelling is permitted should proceed subject to the following conditions:

1. Council is to update the planning proposal to include sufficient additional information to adequately demonstrate consistency or justify any inconsistency with the below S117 Directions and other documents:
 - 1.2 Rural Zones
 - 1.5 Rural Lands
 - 5.1 Implementation of Regional Strategies
 - State Environmental Planning Policy (Rural Lands) 2008
 - Sydney - Canberra Corridor Regional Strategy
2. Prior to undertaking public exhibition, Council is to update the 'objectives or intended outcomes' and 'explanation of provisions' sections in the planning proposal to address the proposal to permit 'dual occupancies' in certain rural and environmental protection zones, where a dwelling is permitted, consistent with the additional information provided by Council on 9 October 2013.
3. Prior to undertaking public exhibition, Council is to update the planning proposal to include existing and proposed lot size maps, which are at an appropriate scale and clearly identify the subject land.
4. Community consultation is required under sections 56(2)(c) and 57 of the Environmental Planning and Assessment Act 1979 ("EP&A Act") as follows:
 - (a) the planning proposal must be made publicly available for a minimum of **40 days**; and
 - (b) the relevant planning authority must comply with the notice requirements for public exhibition of planning proposals and the specifications for material that must be made publicly available along with planning proposals as identified in section 5.5.2 of *A Guide to Preparing LEPs (Department of Planning & Infrastructure 2013)*.
5. Consultation is required with the following public authorities under section 56(2)(d) of the EP&A Act and/or to comply with the requirements of relevant S117 Directions:
 - ACT Government
 - Office of Environment and Heritage
 - Murrumbidgee Catchment Management Authority
 - Department of Primary Industries - NSW Office of Water
 - Department of Primary Industries - Agriculture
 - NSW Rural Fire service (S117 Direction 4.4 Planning for Bushfire Protection)Each public authority is to be provided with a copy of the planning proposal and any relevant supporting material, and given at least 21 days to comment on the proposal.
6. A public hearing is not required to be held into the matter by any person or body under section 56(2)(e) of the EP&A Act. This does not discharge Council from any obligation it may otherwise have to conduct a public hearing (for example, in response to a submission or if reclassifying land).
7. The timeframe for completing the LEP is to be **18 months** from the week following the date of the Gateway determination.

Dated *25th* day of *October* 2013.



Neil McGaffin
Acting Deputy Director General
Planning Operations & Regional Delivery
Department of Planning & Infrastructure

Delegate of the Minister for Planning & Infrastructure



WRITTEN AUTHORISATION TO EXERCISE DELEGATION

Yass Valley Council is authorised to exercise the functions of the Minister for Planning and Infrastructure under section 59 of the *Environmental Planning and Assessment Act 1979* that are delegated to it by instrument of delegation dated 14 October 2012, in relation to the following planning proposal:

Number	Name
PP_2013_YASSV_003_00	Planning proposal to reduce the minimum lot size for subdivision and the erection of a dwelling in zones RU1 Primary Production and RU2 Rural Landscape from 80ha to 40ha, amend the lot averaging clause to allow a minimum lot size of 20ha and a maximum lot size of 70ha for land zoned RU1 and RU2 and to permit 'dual occupancies' in certain rural and environmental protection zones, where a dwelling is permitted.

In exercising the Minister's functions under section 59, the Council must comply with the Department's "A guide to preparing local environmental plans" and "A guide to preparing planning proposals".

Dated 25th October 2013

Neil McGaffin
Acting Deputy Director General
Planning Operations & Regional Delivery
Department of Planning & Infrastructure