



15 September 2023

## **PGA Response to Pastoral Rent Review: Valuer-General's Methodology**

### **INTRODUCTION**

The Pastoralists and Graziers Association of WA (PGA) is a non-profit industry organisation established in 1907, which represents primary producers in both the pastoral and agricultural regions of Western Australia. Current pastoral membership numbers equate to 84% of all pastoral leases, excluding Indigenous and conservation leases.

The PGA welcomes the opportunity to address the proposed Pastoral Rent Market Review Methodology. As our membership consists of pastoral lease holders throughout all areas of the WA pastoral estate, we fully support any attempt to find a better way to determine pastoral rents, provided the eventual methodology is fair and equitable.

### **BACKGROUND**

Since June, the PGA has consulted with its members, as well as with the KPCA, over the proposed alternative methodology, which involves Potential Carrying Capacity (PCC) Assessments as the underlying basis in determining value.

The Potential Carrying Capacity (PCC) is the estimated number of livestock equivalents (CU) that can be annually carried over the long-term on a lease while maintaining or improving rangeland condition.

PCC is derived from the 2018 Spektrum report which was based on select terms of reference from the Valuer General. According to the report the calculation of the PCC must assume:

- All pasture types are in good rangeland condition (that is the potential for producing palatable pasture hasn't been reduced).
- The area is fully developed (particularly with respect to water point distribution and placement) and available to livestock.
- All feral herbivores are under control and good grazing management is practiced.

- The estimate is the average carrying capacity across the full range of seasonal conditions.
- An understanding of each land unit's ability to support sustained livestock grazing.
- Good rangeland condition is assessed as; the perennials being present include all or most of the palatable plant species expected, though some less-palatable species may be present and total perennial groundcover is close to the optimal for the site.
- Areas that are physically inaccessible are removed from assessment.
- Good grazing management has been practiced.
- Introduced pastures (eg Buffel) are included in assessment.
- No supplementation is provided.
- Reserves, UCL stock routes excluded.

## ISSUES

At the PGA Pastoral Committee meeting on 6 September 2023, which was attended by KPCA, the following issues were raised over the proposed alternative methodology, in particular the use of PCC.

As outlined above, there is concern that the calculation of the PCC relies on many assumptions, and does not consider numerous qualitative factors that impact on an individual station's value, including:

- Physical access to markets.
- Market volatility, including export bans due to biosecurity issues.
- Manageability.
- Suitability of country type for a higher and better uses including irrigated horticulture, cropping under Diversification Permits, carbon farming projects.
- The potential for further pastoral development including access to water.
- The price bracket of the property which has a significant impact on value rates.

As such it is believed that the proposed calculation is oversimplified and does not appear to account for any of the relativity factors mentioned above. For example, PCC considers that water is hypothetically available across the entire pastoral estate, and that can be developed without consideration of the difficulties, both in capital works and in environmental and other regulatory oversites, in sinking a bore or constructing a dam.

Another key aspect of contention is that PCC does not factor into account a station's location, nearby road infrastructure, and access to markets at different times of the year. Nor does it consider difficulties in dealing with the long-term impacts of severe flooding on road infrastructure, such as occurred in the Kimberley at the beginning of the year where the only crossing between the East and West Kimberley was washed away.

There is also concern that PCC does not accurately reflect the impact of climatic conditions and weather on pastoral operations. Carrying capacity is good seasons is generally higher than in dryer seasons. Most pastoralists are aware of the impact of running too many stock in dryer years and therefore are well known to dramatically destock to deal with an adverse season.

There is also no consideration under the proposed methodology for special consideration to be made for pastoral leases that earn significant revenue from carbon farming projects relative to their income from pastoral purposes. This is an evolving issue, especially in the Southern Rangelands, where it is noted that no PCC Assessments have ever been undertaken.

Regarding the use of PCC Assessments by the Valuer General, there is concern over the ability of DPIRB to undertake the assessments in the future, given the change of personnel since they were last undertaken by DAFWA.

The PGA fully supports the KPCA's position that, consistent with Section 114 of the Land Administration Act, lawful improvements made to a pastoral lease do not vest in the State, and as such you cannot implement a pastoral rent model that sees the State receive a return on improvements made by the pastoralist.

In addition, several concerns have been raised regarding the calculation of the Capitalisation Rate using PCC and the adopted \$/cattle unit, which includes Lease and improvements at date of valuation. The Capitalisation Rate is the result of the Net Operating Income divided by Current Market Value. The adopted \$/cattle unit does not reflect a station's Net Operating Income, which is annual income less all operational expenses. Further the NOI can vary significantly from year to year depending on numerous variables. One off-year (in the case of a severe drought for example) could result in significantly lower income that year for a lease that is otherwise highly productive.