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IPART Review of the rate peg to include population growth – Comments on Draft Report

The NSW Farmers' Association (NSW Farmers) is Australia's largest state farming organisation, representing the diversity of interests of its members. Our focus extends from issues affecting particular crops and animals, through to broader issues including the environment, biosecurity, water, economics, trade and rural and regional affairs.

NSW Farmers welcomes the opportunity to provide feedback to the Independent Pricing and Regulatory Tribunal of NSW (IPART) draft methodology formed through the review of the rate peg to include population growth.

It is our contention that, as a priority local government rating structures are transparent, fair and equitable across the various rate categories and landowners; and that all ratepayers have the potential to access the full suite of services funded by council rates.

As previously communicated, NSW Farmers recommends that the full suite of rating categories and sub-categories are utilised by all local councils when setting their rating structures to ensure fair and proportionate rating across all ratepayers.

NSW Farmers shares the concerns of local councils and other stakeholders about the need for increased certainty and sustainability of ongoing funding to deliver local government services including road maintenance. Accordingly, we provide general support for IPART's draft proposal to vary the rate peg to include population growth, however we do not support this variation if it is to be applied to primary producers.

NSW Farmers recommends that any rate peg increase be absorbed by the rating categories contributing to urban growth, that is, residential and business ratepayers.

It should also be noted that while some LGAs in rural and regional areas are experiencing growth, particularly in urban centres, others are declining. NSW Farmers agrees that LGAs experiencing a population decline should have a population factor of zero and not be entitled to less rates revenue under a reformed rate peg methodology relative to the current rate peg.

However, we remain concerned that varying the rate peg to include population growth in other areas will make it more difficult for rural councils, such as those in Far Western NSW, to access adequate funding through alternate sources to continue to provide services to their residents.

Councils manage many costs that may not be immediately visible to the ratepayer such as depreciation of assets and ongoing maintenance. It is not optimal for ratepayers to bear the burden of operational costs of councils when funding from state and federal governments could be improved.

In general farmers contribute a significant proportion of council rates in regional areas when compared with residential and business ratepayers, whilst often unable to derive the full benefit of council infrastructure and services. This may be due to size of landholding, land value and/or each council's rating structure.

As the nature of the farming business often requires large areas of land to undertake operations, even minor changes to local government rating can have significant financial and business cash flow implications for farmers. Therefore, any changes to the levying of rates must be carefully considered in terms of necessity, fairness and equity.

Our members are concerned that any increase in a local council's available rating pool may be distributed disproportionately amongst its ratepayers. As noted in the draft report, councils in NSW have the autonomy to set rates in accordance with their rating structures, and this will determine who pays towards growth.

If care is not taken to account for the disadvantage faced by farmers through possession of larger landholdings and reduced access to services, they may be required to contribute a disproportionate level of council rates. This can easily occur due to the large areas of land often owned by farmers in order to run their business operations. As rating structures are typically heavily reliant on an ad valorem contribution based on land value, this can result in a disproportionate amount of the rating burden being placed of primary producers simply due to the nature of their business.

Population growth is likely to lead to higher density populations in urban centres and greater use of and demand for service amenities. NSW Farmers acknowledges that expenses may increase to improve amenities where growth is occurring – in towns and urban centres. As urban development is essentially aligned with population growth, NSW Farmers suggests that any rate peg increase be absorbed by the rating categories contributing to urban growth. In addition to expanding facilities and services, this will also contribute to the cost of developing new areas including paving new roads, installing curb and guttering, connecting water and sewerage, etc. as well as the direct costs resulting from population growth and services provision required.

Residential and business ratepayers in urban centres are likely to experience significant benefits from increased population and associated development, including better facilities and services, and increased custom. Farmland ratepayers, however, are unlikely to derive direct benefit from urban growth, as their access to facilities and services will not change, there will likely be increased pressure on infrastructure such as roads, and there may be a consequential contraction of agricultural land as a result of urban expansion. Focus may also move to ensuring provision of greater services and facilities for the expanded urban population, potentially to the degradation of less visible services such as weed management.

Rate peg variation to include population growth, and the potential unintended consequence of farmland rate rises, is of particular concern for primary producers situated in the urban fringe, such as Central Coast Council. These areas, once prosperous areas of agricultural production, have slowly transformed to make way for an expanding urban population and accompanying businesses and industry in close proximity to large centres.

These areas now typically have a smaller proportion of farmland ratepayers with high land values due to their urban proximity, and can be subjected to the burden of any changes in local government rates, such as the significant rate peg variation of 15% requested by Central Coast Council. Whilst this increase will impact all ratepayers, the effects are significantly amplified for primary producers due to their large landholdings with high value land, jeopardising their ongoing viability.

Additionally, the high land values in these agricultural areas close to urban centres speculates future use to deal with population growth and disrespects the disconnect between land valued speculatively but used as a commercial farm. In effect this results in the payment of a premium for future population growth through the increased land value on which rates are based.

It is therefore appropriate to apply any increase to the rate peg to account for population growth to urban ratepayers only, where the population growth is occurring and where benefits will be derived.

NSW Farmers is concerned that the current draft proposal does not provide any safeguards as to how rates will be apportioned amongst different rating categories. This could vary substantially from council to council as current rating structures do, creating potential for a disproportionate impact on farmland ratepayers. We therefore disagree with IPART's view that additional protections are not necessary, and seek exclusion of farmland ratepayers from any rate rises resulting from increased population growth.

Additionally, NSW Farmers is concerned that where changes to land categorisation occur, rating categories must be reconsidered and appropriately adjusted to take into account the reduced number of ratepayers. Redistribution of rates amongst the rating categories should occur, rather than keeping the income from the various rating categories essentially the same while increasing the category the land is changing to. For example, if a farm is subdivided into five residential lots, overall council rate revenue will increase, but the rating structure may not be adjusted to account for the reduced number of farms and increased number of residential ratepayers.

It is critical that farmers are not subjected to further increases in local government rating based merely on the area of land they own to run their business. Land values have risen significantly in recent years which has already increased the local government rating burden for farmers whilst having no impact on their ability to increase productivity or access to local government services.

Agriculture and the green space it provides is critical to the continued availability of fresh, local produce and to balance the effects of pollution and urban development.

NSW Farmers seeks the fair and equitable provision of local government services to the farming community and other stakeholders, at a fair and equitable cost to all ratepayers. We support the continuation of rate pegging, but only support variation of the rate peg to account for population growth if it is not applied to the farming sector and will not lead to a rate rise for primary producers.

It is imperative that rural areas are isolated from any rate peg variation increases, or we risk that the entire increase could be applied to primary producers if a council desired.

While increased rates to account for population growth may relieve some of the pressure currently placed on councils, we consider that further work is needed to increase ongoing funding sustainability and certainty to enable councils to provide for their communities.

Should further information be required please contact Renee Austin, Policy Advisor on [redacted] or [redacted].

Yours sincerely

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James Jackson
President