Review of Local Government Rating system

From Mudgee District Branch NSW Farmers Association

The following information provided directly relates to the rating structure and circumstances within the Mid-Western Regional Council area and may not necessarily relate to circumstances created in, or related to other local government areas of NSW.

Farmers or farmland ratepayers are a minority constituency in Mid-Western regional Council (MWRC), which was an amalgamation of Rylstone, Mudgee, part of Merriwa in 2004.

Australian Bureau of Agricultural Resource Economics (ABARE), 2014 figures state that total farm business assets on average comprise 83% property value, 2% current assets, 15% non-current assets. No other business is taxed at such an extraordinary level on its total business assets by local government annually. MWRC represents an extreme case and example

Within Mid-western Regional Council (MWRC), currently a full time farmer on an average 1,000 /1200 ha property will be paying in the vicinity of $10,000 per annum in Council rates. With an average annual increase of 2.5% to 3.5%, rates will increase by a thousand dollars every three to four years. This magnifies the unsustainable trajectory of the current rating model with an ever increasing percentage of farm incomes being paid in council rates.

Agricultural production has historically been the mainstay of the local economy and a substantial supporter of many additional businesses in the MWRC area since first settlement. More recently it has become the common thread and vital backdrop intertwined with the ever increasing local tourism industry which, according to Local Government statistics, attracts in excess of 500,000 visitors per annum to the region. However farm incomes have not kept pace with various costs and wage increases for many years with agricultural commodities suffering long term market decline. Woolgrowers and particularly superfine wool production which is synonymous with the Mudgee region has felt the brunt of cost price squeeze over the last twenty years with incomes remaining static and decreasing in real terms without taking into account adverse seasonal conditions experienced and compounding already existing difficult circumstances experienced by many producers who have seen the proportion of their income paid in rates double over the last twenty years to the extent one farm business submission to Council in 2012 stated that council rates took 8% of their gross income.

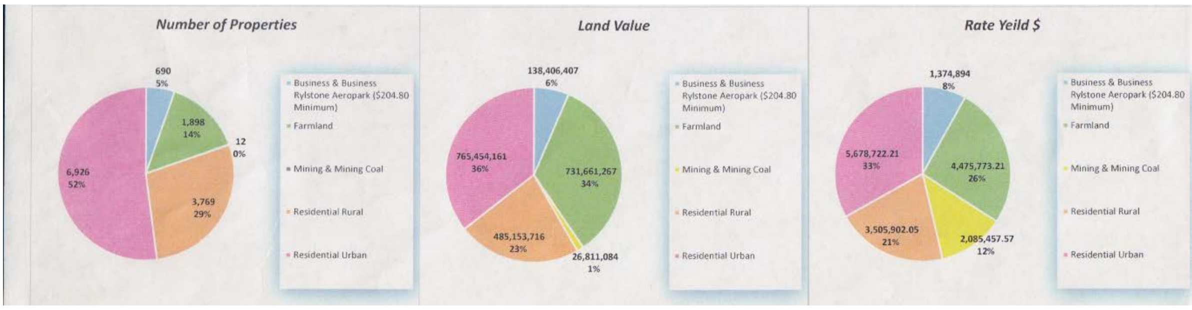
Adjoining progressive and comparable Councils have adopted more realistic and sustainable rate structures better reflecting various income levels and ability to pay, recognising the fact that agriculture, unlike any other industry is taxed annually on its asset used to create income, and therefore should be rated at a substantially lower level.

Coupled with the above circumstance which comes into play with amalgamated councils such as MWRC is the diabolical situation where we inevitably have genuine farmland ratepayers becoming a minority constituency by a huge margin, but paying a substantially higher proportion of rates.

The following pie charts illustrate the problem MWRC farmers face, making up 14% of ratepayers and pay 26% of the rates while residential ratepayers make up 81% of ratepayers paying 54% of rates.

Mid-Western Regional Council

Summary of rates as at December 2015



Under the current rate structure, coal mining in MWRC also presents another perverse outcome with an industry 20 times greater than agriculture in gross production in dollar terms, paying half the rates farmers do.

The ability to pay principle, using land values only as a guide and approximation of ability to pay is flawed to the extent that we have seen coal mining interests buy up extensive parcels of farmland in MWRC area (currently in excess of 100,000 ha's), for many times more than the agricultural value. Because of the extreme prices paid by mining interests, due to the value of the resource underneath and the fact that it remains categorised as farmland, the Valuer General has to set aside the prices paid and not use them in any valuation calculations, (as referred to in the 2011 Statutory Valuations Independent Review into MWRC, NSW local authority area, prepared by Professor Michael J Hefferan FAIV). Whilst this is necessary in order not to disproportionately increase genuine farmland values, it also means mining interests do not pay rates reflective of the values paid for land in their possession to the extent that all other ratepayers do.

As an example, we know Kepco has purchased approximately 8,000 ha's in the Bylong Valley for more than $100 million. The Valuer Generals cleared land value of this land used for local government rating purposes would be closer to $10 million. (This could be verified through a search).

The gross value of primary production from agriculture in MWRC area is $65 million annually according to the Bylong Mining Project Agriculture Impact Statement prepared by Scott Barret & Associates. (Our analysis using ABARE figures for MWRC suggests $130-$150 million is closer to the mark). They also state that the combined gross income from agriculture on the affected land in Bylong will be $2.6 million per year compared to projected benefits of $596 million from the coal mining project.

The collective coal mining extraction limit in MWRC area is currently 52 million tonnes annually with an imminent increase of a further four million tonnes with the Moolarben extension and an additional 6 million tonnes projected with the advent of the Kepco Bylong mine.

Only the coal mining industry could tell us what their collective gross income is, but I would suggest it is in billions, not millions, while their collective contribution to MWRC via rates is $2,085,000, less than half that of farmland.

In 2002, with an extraction limit of 2 million tonnes annually, Ulan Coal then paid approximately $200,000 in rates to Mudgee Shire Council.

We would submit that their contribution has not grown commensurately with their production capacity, economic footprint in MWRC or their impact on public infrastructure.

In our neighbouring Council of Lithgow, the coal mining industry currently has an annual extraction limit of 15 million tonnes and pays in excess of $2 million annually in rates.

Additionally, when mining companies successfully do an extension and gain an increase in their extraction limit as they invariably do, there is no recourse in an extension Development Application for local government to increase their rates or contribution to council that we are aware of.

The rate burden in MWRC council is disproportionately distributed across the community and solely using the current land valuation system and Local Government Act 1993 allows them to do so without having to give any substantial reasoning to their disproportionate application.

Majority Councillor Cohort of MWRC argues that we have a much larger local road network than those councils MWRC is compared to, as the basis for charging the farmland rates it does, but the mining industry also utilises the road network as does the tourism industry with 280,000 tourist visits annually (MWRC figures).Much small business subsequently spins off these major industries and also utilise the local road network

There needs to be provision for allowable variations to be made within the mining category as exists within the residential category to allow Councils to make sub-categories in order to make reasoned commensurate adjustments with production increases and for mining within different areas and having a varied impact on public infrastructure.

Extraction limits should be included within the valuation of a mining operation.

There is a flaw where mining is concerned, expressly in using the land valuation methodology only as the basis for determining rates, where mining interests buy land with a long term goal of mining and pay prices way in excess of farmland value, but hold it as farmland for many years, only mining a small area of their land parcel.

As previously explained, the Valuer General has to set aside the prices paid in order not to corrupt genuine farmland values, so subsequently mining companies do not pay rates on such land with any commensurate or related calculation to the prices they pay or potential of the land in question on an agricultural basis, contrary to farmers.

We support the abolition of the minimum rate mechanism in favour of a base amount model

Base amount should raise approximately 50% of total rates by category and across the spectrum with ad valorem making up additional 50%.

- **The objectives and design of a rating system (according to the recognised principles of taxation);**

The objectives of the Local Government Act with regard to rating are to;

- provide a system of local taxation, based on rates levied on property, which is simple, fair, broadly uniform, and which promotes local accountability
- permit the use of particular rates for the provision of specific services or facilities
- provide that councils will annually justify to their community their proposed revenue raising decisions in an open manner
- allow reasonable flexibility in the administration of the local taxation and charging regime
- reinforce council's accountability and responsibility for local revenue raising to the local community to provide for councils to set their own fees and charges for services

In particular, Council's charter under section 8 of the Act includes the following:

"To raise funds for local purposes by ***<u>the fair imposition</u>*** of rates, charges and fees".

The current imposition of rates in MWRC is manifestly unfair to the farming community and when compared to other councils, is bias against the farmland category, as exemplified by the following table of rates paid, ad valorem cents in the dollar by category.

Council	*Residential*	*Farm*	*Business*	*Mining*
MWRC	0.65	0.61	0.95	7.68
Bathurst	0.92	0.28	1.8	
Lithgow	0.60	0.28	2.3	9.5
Upper Hunter	0.75	0.43	0.75	43.0
Warrumbungle	0.92	0.42	2.73	
Orange	0.61	0.18	1.2	
Dubbo	1.1	0.68	3.7	

Furthermore, when compared to similar councils as evidenced in Comparative information on NSW Local Government, we find the following:

	Average Ordinary Res Rate	Average Ordinary Business Rate	Average Ordinary Farmland Rate	Average Ordinary Mining Rate
Group Average	$878.05	$3168.15	$1834.89	$206,823.71
MWRC	$ 745.39	$1821.72	$2,190.48	$10,606.33

As can be seen in the above comparative figures, Farmland rates in MWRC are at a premium to the average while all other categories are at a discount to the average.

Additionally based on Councils own figures referred to in the "Community Plan 2030", Mining's contribution to the Gross Regional product (GRP) is 35.8%, Rental, Hiring and Real Estate is 11.5%, Manufacturing is 6.7% followed by Agriculture at 5.8%

With regard to the benefit principle and the extent to which council allocates the cost of services against the rated category receiving the service, if taken to extremes only serves to be counterproductive and divisive.

It may be argued that rural ratepayers should pay for rural road maintenance as the access to their businesses as well as contributing towards services available to them in towns. Conversely, many rural ratepayers will contend their use of council provided services in town is restricted and often not used due to distance and isolation so why should they pay? The simple answer is that all constituents generally and collectively benefit from council services provided including a well maintained public road network. To take the parochial view and try and divide and attribute costs to particular categories as MWRC does is short sighted, counterproductive and only serves to divide the wider community.

Land value should not be the only "ability to pay indicator" used where extractive industries are concerned , as previously stated it is flawed by the fact that land values paid are not necessarily used by the Valuer General in determining the rateable value of the land they hold.

We have lobbied MWRC and Local Government Ministers since the amalgamation and making of MWRC for a fairer and more equitable rating structure to no avail.

There has to be a process that circumnavigates the parochialism and bias that pervades the unique situation farmers find themselves in where we are and always will be the minority constituency but have the majority of the asset used as the measure by which the level of rate resourcing to councils is determined. We will increasingly struggle to have a voice at the table as councils are regionalised.

There should be an avenue or process by which ratepayers can have a contestable rates issue heard by an independent panel or suitably qualified person who has the authority to make recommendations to a Council as to a fair and reasonable course of action or outcome.

Emergency Services Levy:

For the Emergency Services levy to be equitably applied to the current UCV property valuations it is imperative that it be factored with a substantially lesser cents in the dollar application to farmland as against business, residential or mining in order that farmland ratpayers are not again left carrying a disproportionate share of the levy.

It may be more appropriately applied to residential, business and mining using the Improved Capital Value system, better reflecting the value of the protected assets. Applied to farmland may provide a disincentive to good land management, especially in instances where rural land is held for lifestyle pursuits and responsible land management practises such as pest and weed control are not valued by the landholder or conducted without directive from local regulatory authorities.

It should be legislated that Farmland rates as a whole or in part, should be the lowest rated cents in the dollar of all rated categories for reasons previously explained