

## **Submission to the Mildura Rural City Council**

### **Proposed 2013/14 Budget**

#### **Introduction**

Farmers are very concerned with the rating strategy within the 2013/14 proposed budget and subsequent rate burden on farms.

The farmers in the Shire wish to work with Council to develop a strategy which is fair to all residents and allow the farmers to conduct viable businesses; however the current rating system is not fair to farmers.

The local branches of the Victorian Farmers Federation have held a number of meetings over the past few weeks to discuss the draft budget. It was clear that the attendees of the meeting cannot support a 12.7% rate rise proposed this year and are dissatisfied with the consistent rate increases over the past many years.

#### **The Current Situation**

The capital base rating system is not appropriate for farm land. Unlike residential land value assessments, it does not capture accurately the capacity to pay nor benefit received. Land, labour and capital are the factors of production. Land is the farmer's major income producing asset. Land, however, in the non-farm sector, is where the enterprise and income producing assets are located. The income producing assets of the non-farm sector are not subjected to an annual ad valorem tax; whereas, the major income producing asset of the farm sector (land) is so subjected to this tax. This imposes a distorting burden on agriculture.

Farmers pay a much higher rate burden than the general community and yet farmers requirement for council services are less than the requirement of the general community. Property based rating disadvantages farmers relative to other groups in the community, since land is the farmers' primary income producing asset whereas land is merely the site on which non-farm businesses' assets operate. Farmers should not be expected to pay more than their fair share for general community services.

Farming is, by its nature, a land-based activity, and farm businesses have a very large proportion of their total assets invested in land. This is rare in non-farm businesses. In addition, farms are generally located outside the main population centres, and farmers do not have equal access to the services provided by Councils. Consequently, farmers pay a disproportionate share of the costs of local government.

## **The 2013/14 budget**

The Mildura Rural City Council is not fulfilling the objective of 'to ensure the equitable imposition of rates and charges;' as outlined in section 3c (2f) of the local Government Act 1989 in relation to the farming community.

The budget for 2013/14 has removed the drainage charge from certain rate payers and is distributed over all rate payers in the Shire. This has led to a 12.7% increase in rates for dryland farmers.

This is clearly unfair and further exacerbates the already existing disproportionate burden shoulder by farmers in the Shire. VFF members request that the burden of municipal rates be shared more equally among all residents.

Farming, by its nature, is a land intensive activity and the land value often does not have a direct correlation to amount earned or capacity to pay. In fact, according to ABARES the return on equity in farming is extremely low (negative in some cases) where businesses which are not land intensive, such as supermarkets and banks have a very high return on equity.

It must be pointed out that rates is not a land tax, especially considering the State does not collect land tax on areas of primary production. Municipal rates is being used as a wealth tax, but it is using CIV value as a very poor proxy for wealth.

Where the CIV may be a close approximation for capacity to pay for households, it has little relevance for small business. For farms in particular, CIV value is a very poor proxy for wealth and capacity to pay.

Currently in Victoria, the farm rate differential varies from 100% (no differential), to a 50% differential. While there are very different factors that affect fair and equitable rating systems across the State, the rating system in this shire is not treating farmers fairly.

The Ministerial Guidelines on the use of differentials was gazetted on April 26, 2013 and stated the following with regard to farm differentials:

*Circumstances whereby common types and classes of land use consistently demonstrate significant relative rate disparities, including access to services arising from the use of a uniform rate, may be addressed by use of the differential rate powers. Common types and classes of land use where such circumstance can arise and where a Council **must give consideration** to reducing the rate burden through use of a reduced differential rate include (but are not limited to):*

- *Farm land (as defined by the Valuation of Land Act 1960);*

It is clear to the VFF that the council has not given due consideration to a farm rate differential. If the council had, they would have introduced used a differential as over 90% of all rural and regional councils have deemed it appropriate to provide a farm rate differential.

### Services from Council

The differential guidelines established by the Minister for Local Government has pointed out the need to take into account the extent of council services usage and capacity to pay. It is clear that farmers do not have an equal access or use of services provided council. The drainage charge that now assessed on farmers are of no use or benefit to the farmers and due to their remoteness and distance from Mildura the town centric services offer little benefit for the farmers.

The council has also failed to take into account capacity to pay. They have made the assumption that there is an equal relationship between the value of residential land, dryland farming and irrigation land farming by imposing an equal rate. This is obviously a fallacy for the reasons listed previously.

In the thorough audit of Rating Practices in Local Government, completed in February 2013, the Victorian Auditor general's Office listed some significant concerns with rating practices in Victoria; namely, that there is limited assurance that all councils (emphasis added):

- systematically and rigorously consider the information and evidence needed to ***adequately understand the impact of their rating proposals on their communities***
- adequately consider the principles of stability, equity, efficiency and transparency in their rating decisions, although this is difficult due to rating framework issues
- ***consistently calculate, and transparently report, key rates and charges data in a manner that allows scrutiny of decisions, and comparability between councils.***

It appears the Mildura council is a prime example of some of these concerns. As I will point out below there has not been transparency in the previous budgets and the proposed budget was (perhaps deliberately) misleading.

The increase in farm rates of 12.7% is proof that there has not been an adequate understanding of the impact of the rating proposal on the community. Many farmers are paying in excess of \$10,000 in municipal rates; in these cases a 12.7% increase is an added over \$1,000 in rates for no added service

The VAGO reports goes on to say that in accordance with current best practice in developing rating strategies, councils should:

- clearly articulate the link between its rating strategy and rating decisions, and its council plan, longer-term financial strategy, strategic resource plan and annual budget
- actively identify and articulate the critical internal and external environmental factors that will impact on rate revenue requirements
- regularly review the changing nature of its rating base, the elements of its rating structure and the amount of rates and charges the municipality requires

- ***demonstrate an understanding of the characteristics of its ratepayer categories and objectively assess the likely impacts of its rating proposals and decisions on them, including their capacity to pay.***

### **The Proposed Budget document**

We are also concerned with the misleading budget numbers presented as a part of the statutory disclosures. Page 58 of the budget states that the proposed percentage change for each type of rate, compared to that of the previous financial year was to be 5%.

***This is clearly misleading.*** While there may be an overall 5% increase in rates collected, this IS NOT distributed equally among the rate payers, considering the farm rates are increasing by over 12% and the business rates are increasing by 2.6%.

Also, unlike nearly every other budget in rural and regional Victoria, this budget does not separate out farm assessment information from residential category. This does not lend itself to scrutiny and transparency of the rating strategy.

*Recommendation: We recommend the budget papers are re-drafted to provide transparency by:*

- *stating the increase in the rate on the dollar by rating category*
- *separating farm land rates as its own category*

### **VFF Proposal**

***The Victorian Farmers Federation proposes the Mildura City Council immediately adopt a farm rate differential of 70% for the 2013/14 budget year.*** We like to see that differential further strengthened over time to be brought to 60% by the 2015/16 budget year.

The adoption of the farm rate differential will reflect that farmers do not have the same access level to council services and that farmland values do not have the same link to capacity to pay as businesses the towns and Mildura.

The farm rate should be directed to only *bona fide* commercial farmers. The differential rate is designed to recognise that land is the income producing asset of a business and the value of land often does not reflect the capacity to pay for farmers. We feel the best way to identify *bona fide* farmers is to request proof of current VFF membership information as the VFF is the professional organisation for farmers.

### **Conclusion**

Mildura farmers would like to work with the Shire to develop a rating system that is fair for all residents. We feel the current rating system does not deliver fairness to farmers and we have outlined a process that will deliver a fairer system.

Farmers provide a valuable and important role in the community and economy for the Shire. Our proposal to alter the rating system will support farm business and recognise that farms are wealth producing business for the community AND provide important land care activities.

We look forward to hear from the council and are willing to meet to discuss the next Shire budget at any time.

**I would appreciate an opportunity to speak to this submission to council.**

Kind regards,

Ian Hastings, Ouyen, 0418 502 032

Ron Hards, Yarrarra, 0407 283 240

Colin Hunt, Merbein South, 0427 284 245