Common arguments and rebuttals

Outlined below are some common statements made by Councils and their Office Bearers regarding rates affecting farmers and their local communities. Beneath each statement are some valuable facts which should assist local activists in rebutting those arguments.

Rating Equity

Statement: ***"Farmers get fair value for their rates."***

Response:

- The majority of farmers in Victoria do not use many of the services provided by councils. This has become more pronounced as councils now provide more human services and fewer capital services;

- Farmers do not utilise council services to the same extent as urban ratepayers do – This is mainly due to the distance between the ratepayer and the service delivery site Eg. Childcare; and

- Residents who rent or own no property, pay no rates - Their use of council services is subsidised by property owners (Inc. farmers) – How can this situation and that of farmers both be fair?

Statement: **"W*hy should the council deliver a rate cut for apparently wealthy people owning large landholdings?"***

Response:

- Property value is only one way of assessing wealth, it does not take into account business profitability, capacity to pay or the debt situation;

- The asset and wealth structures for farmers are unique, as farm families invest the majority of their wealth in land. It is not unusual for farm families to have all of their wealth, including their superannuation, invested in farmland. This is rare outside of the farm sector;

- If net wealth is the justification for high rates on farmers, then why don't councils seek an expansion of their taxation powers to include other forms of wealth such as shares, term deposits and other non-property assets?; and

- The Productivity Commission review into revenue raising of local government stated that a capital based system was not the best indicator of a capacity to pay.

Statement: ***"Our rating system is equitable because everyone pays the same uniform rate on their property."***

Response:

- First and foremost, no rating system based on property valuations can be equitable because service users, such as renters and tourists, do not pay to fund the services they utilise;
- Property value does not reflect the income of the owner, the level of services consumed or the services received by the owner on the property;
- For a property valuation rating system to be fair under a uniform rating model, all ratepayers would have to own properties which are of similar structure (the current system is inequitable because properties vary so much); and
- Because of disproportionate service provision and the incomplete nature of wealth assessment (land valuations only), uniform rating systems inevitably penalise farmers due to the scale of their properties.

<u>Farm Rate Differentials</u>

Statement: ***"Farm rate differentials are a form of 'positive discrimination' (concession) for farmers."***

Response:

- Legislation prohibits councils from extending differentials to a point at which they would be unfairly benefiting the farm community;
- Farm rate differentials are an equity restoration tool which allow councils to alleviate the disparity faced by farmers under the existing property valuation rating system;
- Advocates of this argument assume that asset wealth is a good indicator of capacity to pay. In the case of farm businesses, land value does not necessarily reflect income levels (E.g. During drought, poor market prices or as a consequence of rapid land use change); and
- The Productivity Commission review into revenue raising of local government stated that a capital based system was not the best indicator of a capacity to pay.

Statement: ***"Every time the farm differential is improved, farmers are receiving a rate cut."***

Response:

- Any improvement in farm land differentials is normally a response to a significant land value increase. It is important to note that if the differential was to remain the same under those circumstances, farmers would be faced with providing a greater percentage of the council's total rates and huge increases in their own rate bill;

- Changes to farm differentials are a very effective way of concealing rate rises. Farmers need to analyse their personal rating history to determine if they have received a rate hike; and

- They should also examine the changes to differentials in other categories to see if their proportion of total revenue generated has increased or decreased within the municipality.

Statement: ***"Maintaining the farm rate differential proves that farmers rating bills have stayed static."***

Response:

- This is an incorrect 'play on words' used by councils;

- Ideally, the farm rate differential should be assessed for its effectiveness each budget to ensure that it remains an functional equity tool; and

- Equity within a property valuation system is affected by many factors including:

    - Propriety price rises / decreases;
    - Income levels of property owners;
    - Differential rates provided to ratepayers, and;
    - Distribution of the rating burden amongst ratepayers.

<u>**Rate Rises**</u>

Statement: ***"Rate rises are unavoidable due to rising community expectations."***

Response:

- This is incorrect. While it is true that community expectations are rising in regards to service delivery, all councils have the ability to institute a rating freeze, or at worst, limit their rate rises to standard inflation levels (CPI); and

- The community's service expectations cannot be considered in isolation, community concerns about the rising rate burden must also be taken into account

Statement: ***"If we don't raise rates, then how can we pay for new services?"***

Response:

- Rate rises are not the only option available to local councils for meeting funding commitments;
- Councils are able to levy a municipal charge upon all ratepayers in the municipality. A municipal charge is the most equitable way to raise local council revenue as it spreads the rating burden evenly across all ratepayers. At present, a municipal charge may not exceed 20 per cent of total rate revenue; and
- Councils are also able to borrow funds to pay for expenditure. If major asset development is required, there is nothing preventing a council seeking permission to acquire a reasonably sized loan

Statement: ***"You are paying more in rates because we are spending more on 'your' roads."***

Response:

- A key assumption by councils who make this statement is that investment in rural roads is a service of primary benefit to farmers. This is incorrect. The provision of a safe, efficient and modern road system is of value to the entire community. To suggest otherwise would be akin to saying that the provision of a reliable water supply only serves the interests of gardeners; and
- Councils receive funding from the Commonwealth Government for maintaining and improving their local roads.

Statement: ***"You have land, therefore you are rich so you can pay!"***

Response:

- This is a popular misconception and reflects a fundamental misunderstanding of the complicated relationship between asset wealth and capacity to pay – it should be refuted whenever it arises;
- This statement also ignores the fact that the bulk of council services are no longer property related but humans services related; and
- A more appropriate method of securing council revenue would be to place a levy on all council services (or as mentioned above, increase the municipal charge).