Greg Burgoyne
CEO
Glenelg Shire Council
71 Cliff Street
PORTLAND 3305

Victorian Farmers Federation

25 February 2022

Dear Mr Burgoyne,

RE: Submission to Glenelg Shire Council Draft Differential Rate Proposal

The Victorian Farmers Federation (VFF) thanks Glenelg Shire Council for the opportunity to put forward this submission to its Draft Differential Rate Proposal.

We note that Council's differential rate proposal has come about as a consequence of the farming community's strong desire to replace the current primary producer rebate with a differential rate for farmland. The VFF strongly advocated for this strategy in 2021 and we welcome Council's commitment to investigating this change.

However, the VFF is deeply concerned that the introduction of a farm differential rate appears as it is being held hostage to Council's designs on collecting an additional $3.4 million revenue from ratepayers. Our analysis shows that Council's proposal undermines the Victorian Government's Fair Go Rates Cap policy by proposing an average rate increase of 19%.

Farmers believe the move to a 70% farm differential rate is very simple in and of itself, and does not require any ratepayer to pay any more or less than what they currently do. That's because Council's current primary producer rebate of 30% already effectively operates as a *de facto* differential rate of 70%. Farm differential rates are used in almost all other rural councils in Victoria and councils are required to consider the use of farm differential rates under the *Ministerial Guidelines for Differential Rating*.

This submission outlines the VFF's and the local farming community's concerns with Council's differential rate proposal and puts forward positive solutions to Council so it can achieve a fairer and more equitable rating strategy.

Please forward all enquiries or responses to VFF Senior Policy Advisor Charles Everist who can be contacted direction on 0400 199 522 or email ceverist@vff.org.au .

The VFF wants to ensure there is fairness and equity for all ratepayers. We implore Council to introduce a farm differential rate of 70%, whilst ensuring no increase to average rates in real terms. The VFF stands ready to work with Glenelg Shire Council to achieve this objective for the community.

Yours sincerely,

Emma Germano
President

Background – 2021 rebate proposal

In April 2021, Council put forward a proposal to reduce its primary producer rebate offered to farmers from 30% to 10% over the period of four years. VFF analysis conducted at the time showed this change would have increased the average farm rates bill by $10,000.

In response the VFF hosted an online forum for local farmers to discuss the impact of this proposal and VFF members also attended community forums operated by Council at Portland, Heywood and Casterton. VFF staff also met with Council officers to discuss the proposals where they advocated for Council to replace its 30% rebate with an equivalent farm differential rate of 70% of the general rate. VFF also advocated for Council to adopt a dynamic rating strategy to help it use the differential rates to counter the effect of valuation asymmetries increasing the rates on the farm land at a greater level relative to other types of land.

Ultimately, Council agreed to maintain the primary producer rebate at 30% in its 2021/22 Budget and also determined to investigate the reintroduction of a differential farm rate.

Understanding equity issues with the rating system

In responding to Council's differential rate proposal, the VFF believes it is important that Council and the local community understand the basis on which farmers seek a differential rate. The VFF believes there are five major inequities associated with the local government rating system and that these have a particular impact on farm businesses:

- Farmers in general pay more in rates than residents in urban areas.
- Rating structures rarely account for the ability to pay and farmers' ability to pay rates fluctuates to a far greater degree than wage and salary earners.
- Farmers in general use few of the services they pay for through rates and are provided in urban areas.
- Land is a farmers' working capital and is taxed disproportionately compared with the working capital owned by other people and businesses.
- Victoria's rating system produces vast inequalities between metropolitan and regional ratepayers which compounds pressures faced by farm ratepayers.

The current model of using land valuations for striking rates places undue financial stress on farming businesses as the value attributed to farm land does not reflect farm businesses' revenue generation nor capacity to pay. As a wealth tax, the rating system fails because it only taxes one form of wealth being real property, and no other forms of wealth such as income, savings, superannuation and shares. Local government rates therefore have a disproportionate and discriminatory impact on farm businesses, as they require large amounts of land in order to produce an income, which consequently requires farmers to pay large amounts in rates.

What's more, farmers' incomes fluctuate because they are more exposed to factors beyond their control including seasonal variability such as rainfall, natural disasters and changes in international commodity markets. These factors have little impact on land values, but have a significant impact on famers' incomes and ability to pay. Businesses in other industries are also far less exposed to the impact of these factors. Where the value of commercial land may fluctuate depending on the health of the local business environment, farm land values remain constant and continue to increase year on year despite the relative economic health of the agricultural industry.

The burden of rates on individual businesses is difficult to quantify given that every farm business is different. However the VFF estimates that council rates represent anywhere between 2 to 15 per cent of a farm businesses cost of production, with these figures inflating with bad seasonal conditions. A smaller livestock property would typically be at the higher end of this scale, with a larger operation at the lower end because of its ability to absorb costs due to its scale. Inequitable farm rates therefore have an even more disproportionate impact on smaller farm businesses, which are lucky to provide their owners with an average income. On the other hand, whilst larger operations may be able to absorb some of the inordinate cost of rates, they do this at the detriment of investing in the business, thereby creating local jobs and economic activity.

It is important that Council acknowledges the inequities faced by farmers because of the rating system that has been imposed by state government policy. Whilst there is little Council can do to directly change that policy, it nevertheless can use tools at its disposal to promote a more equitable local rating strategy through a differential rate.

Observations on the Discussion Paper

Unfortunately, the VFF believes Council's differential rate discussion paper obfuscates the real impact of its proposed 70% and 80% differential options on all ratepayers. The paper does not make expressly state that average rates would increase by 19% for all ratepayers in real terms. The paper does not even record the figure for the total revenue that Council is seeking to take from rates. The VFF has had to conduct a deep analysis of the numbers presented in the discussion paper and Council's budget to uncover the actual impact on ratepayers.

The farming community and the VFF is disappointed that the discussion paper is not more transparent about what exactly Council is proposing. What's more, we are disappointed that the failure to accurately describe the true nature of Council's rating practices could lead to general ratepayers blaming farmers for the proposed rate increase. This could lead to disharmony in the community and to farmers being used as the scapegoat for Council's designs on increasing its rating revenue. This is deeply hurtful and unfair to the farming community as the need for Council to move to a 70% farm differential bares no correlation to any need to increase rate revenue.

The discussion paper states the net equivalent rate for primary producers under the current rating strategy is 55% of the general rate. The VFF disputes this claim as it appears to be based on figures that conflate general rate revenue with Council's PiLoR (Payment in Lieu of Rates) agreements. PiLoR agreements are not general rates being governed by the *Electricity Industry Act 2000*. These 'rating agreements' were established following the privatisation of Victoria's electricity network and are not meant to be based on the value of land, but rather power generation capacity or output. PiLoR agreements are not part of rating system nor are they to be included in calculating a council's rate cap. It would appear the 55% figure asserted in the discussion paper has been calculated by including these PiLoR agreements and the value of the subject land with Council's general rate revenue and land values.

The net equivalent rate for primary producers can be worked out by simply dividing the net rate revenue taken from primary producers ($8,002,000) by the total value of primary producer properties ($2,729,384,000). This produces a rate in the dollar of .002932 cents/$CIV, which equates to 70% of the general rate (.00418 cents/$CIV) and is consistent with the 30% rebate that farm businesses receive. In this regard, the rates that the farm sector currently pays is already equivalent to a 70% rate differential.

Impact of the 70% differential proposal

The following table which uses the figures on page 17 of the discussion paper and figures collected from Council's 2021/22 Budget, highlights the impact of Council's proposed $3.4 million rate grab with a 70% farm differential in place.

Table 1 – Comparison of average rates collected in the 2021/22 Budget and proposed average rates – 70% differential

	Average Rates per Assessment General	**Revenue** General	**Average Rates per Assessment Commercial & Industrial**	**Revenue** Commercial & Industrial	**Average Rates per Assessment** Farm	**Revenue** Farm	**Total Revenue**
2021/22 Budget	$1,035	$10,374,000	$1,446	$1,486,000	$2,877	$8,002,000	$19,862,000
Discussion Paper 70% proposal	$1,232	$12,349,609	$1,721	$1,769,188	$3,425	$9,525,815	$23,644,612

According to the figures presented, total rate revenue will increase by 19% with the average rate per assessment for each category (general, commercial and industrial, farm) increasing concomitantly. That means the average household in Portland will see a $200 increase in their rates notice whilst the average farm business will increase from an estimated $14,113 to $16,800.[1]

Impact of the 80% differential proposal

The table below shows the impact of the proposed 80% farm differential, using the figures on page 18 of the discussion paper and the 2021/22 Budget.

Table 2 – Comparison of average rates collected in the 2021/22 Budget and proposed average rates – 80% differential

	Average Rates per Assessment General	**Revenue** General	**Average Rates per Assessment Commercial & Industrial**	**Revenue** Commercial & Industrial	**Average Rates per Assessment** Farm	**Revenue** Farm	**Total Revenue**
2021/22 Budget	$1,035	$10,374,000	$1,446	$1,486,000	$2,877	$8,002,000	$19,862,000
Discussion Paper 80% proposal	$1,165	$11,677,234	$1,627	$1,672,875	$3,702	$10,293,983	$23,644,091

These figures show that under Council's 80% differential proposal the rating burden will shift further onto the farming community, with average farm rates increasing by 26% as opposed to 15% and 12% increase for average general and commercial rates respectively. Under this scenario, an average house in Portland's rates bill would increase by $130, whilst the average farm business rates bill would increase to an estimated $18,155. This proposed $4,000 rate increase to the average farm business represents extreme rates shock.

[1] This estimate is based on the 2016 ABS Agriculture Census which records 567 farm businesses in the Glenelg Shire.

Rate Cap Compliance

Under the Victorian Government's Fair Go Rates System, Council is required to report on its compliance with the system as part of its annual budget. For reference the compliance statement is copied below from Council's 2021/22 Budget.

		2020/21		2021/22
Total Rates (excludes cultural and recreational	$	22,836	$	23,292
Number of rateable properties		13,868		13,868
Base Average Rate	$	1,656	$	1,683
Maximum Rate Increase (set by the State		**2.00%**		**1.50%**
Capped Average Rate	$	1,656	$	1,683
Maximum General Rates and Municipal Charges	$	22,960	$	23,304
Budgeted General Rates and Municipal Charges	$	19,695	$	19,887

Council's rate cap is calculated by first calculating the *base average rate*, which is done by dividing the *total revenue from general rates and municipal charges* by *the number of rateable properties*. The rate cap is applied to the base average rate to provide a *capped average rate*, which is then multiplied by the number of rateable properties to provide the *capped maximum general rates* that Council may take from ratepayers.

For 2021/22 Council recorded its base average rate as $1,683. However, this figure is calculated by dividing the gross rates recorded by Council ($23,292,000), which represents the total rates collected by Council before the primary producer rebate is applied

In real terms, Council does not levy rates on primary producers at the full rate in the dollar. The current rebate acts as a *de facto* differential rate because Council does not actually partially refund rates to farmers. Rates are collected from farmers with the 30% rebate already calculated.

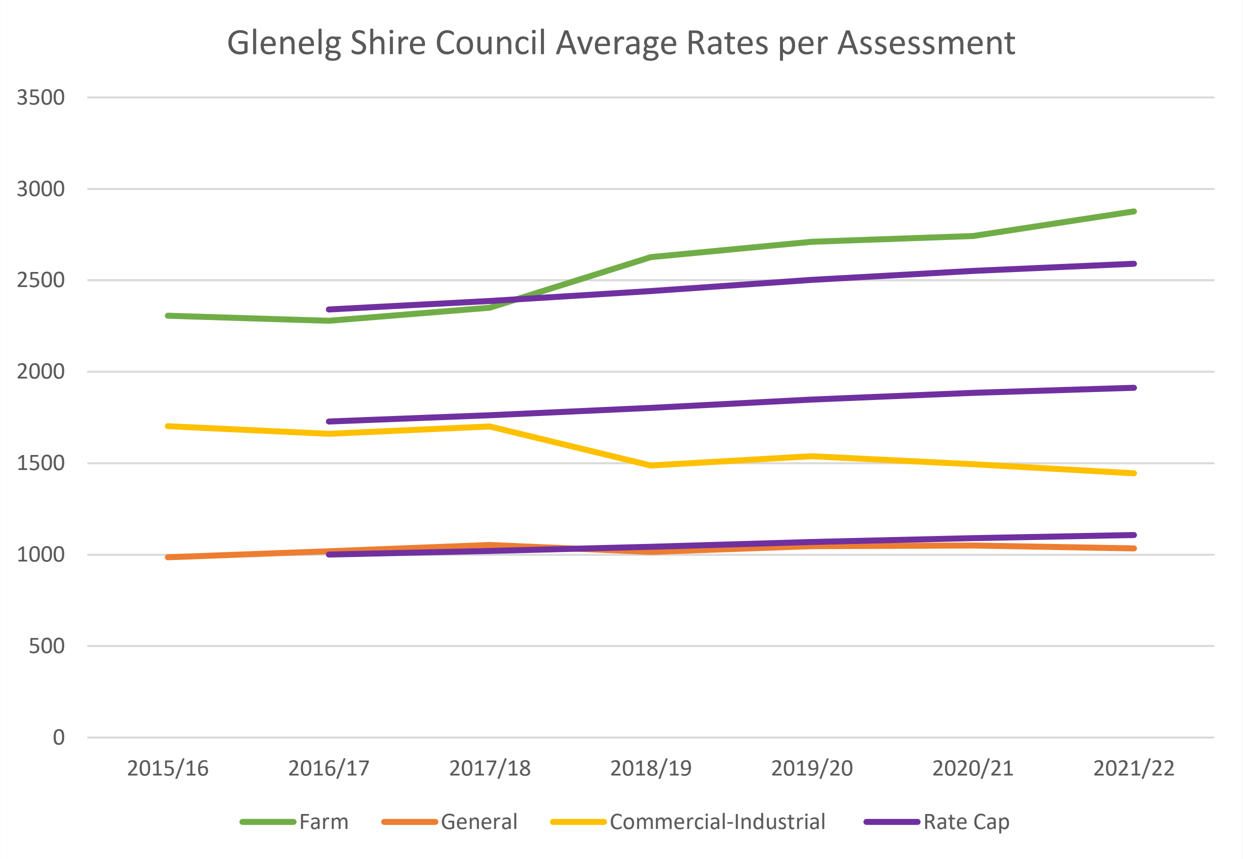
In effect, this methodology artificially inflates the base average rate that Council records, which in turn inflates the maximum general rates that Council is allowed to take from ratepayers.

In real terms, the VFF estimates that Council's base average rate is more like $1,434. This represents the net figure that Council ***actually receives*** from ratepayers.

It is this methodology that the VFF believes Council is using as the pretence to seek to claim an additional $3.4 million in rates under its differential rate proposal. The VFF believes that this point needs to be clarified by the Essential Services Commission which is the body responsible for monitoring and advising local government on rate cap compliance. It is unclear if Council's proposal as it stands falls within the technical requirements of the cap. At the very least, the proposal falls well outside the principles and objectives of the state government rate capping policy. The VFF intends to write to the Minister for Local Government The Hon. Shaun Leane MP to seek his investigation of Council's proposed rate increase and to establish whether the government's policy is adequately taking into account the factors discussed here.

The impact of valuation asymmetries

Since the introduction of the state governments rate cap policy in 2016, farm rates in the Glenelg Shire have been allowed to increase by 25% as opposed to general rates which have only increased by 5% and commercial rates which have decreased by 39%. This is visually represented in the graph below:



This phenomenon has been allowed to happen due to Council's failure to use differential rating powers to offset the effect of valuation asymmetries between different property classes.

In proposing a farm differential rate, the discussion paper makes no reference to how Council's rating strategy should respond to valuation asymmetries between different rating sectors. Valuation of land is not constant, nor is it symmetrical. Different properties increase or decrease in value at different rates over time. Under Victoria's rating system, councils have limited ability to control for these valuation changes as different rates cannot be applied to property on an individual basis. The move to annual valuation of property has also contributed to the turbulence observed in property valuations as the basis for local government rates. However, councils can control for these asymmetries through the use of differential rating powers, which allow for councils to control rate increases for different classifications of property.

The effect of valuation asymmetries across sectors is illustrated in the table below which models the effect of a 20% increase to total farmland values compared to a 10% valuation increase for General, Recreational and Cultural land, and a 6% increase to Commercial land. The model shows that even with a farm differential of 70%, and with the rate cap applied

Table 3 – Impact of valuation asymmetries on average rates under the 70% differential proposal

	General	Commercial	Farm	Recreational	Cultural	Total
Average rate per assessment	$1,145	$1,678	$3,781	$464	$1,229	$1,712
Difference	-7.10 %	-2.50 %	10.37 %	-7.10 %	-7.10 %	1.75 %
Revenue	$11,472,491	$1,724,904	$10,513,999	$6,966	$19,657	$23,738,017
$/CIV	0.004586	0.004586	0.003210	0.002293	0.002293	
Rate Burden	48.33	7.27	44.29	0.03	0.08	

Methodology: Model is based on a General Rate revenue objective in line with the 1.75% rate cap for 2022-23. Model assumes valuation movements remaining constant and carrying forward from 2021-22 into 2022-23. This model serves to illustrate the effect of valuation asymmetries on rating categories. It is not a prediction of rate movements under Council's proposal.

It is important that a dynamic rating system is responsive to this phenomenon to ensure that rate increases are equitable between rating sectors, and that the rating burden is not shifted unfairly from one sector to another.

Differential rating and dynamic rating strategy

Whereas some in the community may feel that differential rates are a form of rate discounting, differential rates are not discounted rates. Differential rating powers are made available under the *Local Government Act* (s161) and recognise the different rating dynamics that apply to different classes of rateable properties and different groups of ratepayers.

The objective of differential rating under the *Local Government Act* and the Ministerial Guidelines (2013) is 'to ensure the equitable imposition of rates and charges' – whilst endeavoring to 'achieve the best outcomes for the local community having regard to the long term cumulative effects of decisions'.

Differential rates are a useful tool to address equity issues that may arise from the setting of Council rates derived from property valuations. 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. What's more, the Guidelines state a Council **must give consideration** to reducing the rate burden through use of a reduced differential rate to **farm land** and a Council should be able to provide evidence of having regard to modelling or consideration of the impact of its rating decision on those rated differentially and the consequential impact on the municipality.

The VFF believes all councils must be required to use differential rates to establish a fair and equitable distribution of the rate burden for each category of land. Once established the rate burden for each category should be maintained for at least four years. Rather than setting the farm differential rate at a fixed 70% of the general rate, the rating strategy should set a lower and upper limit within which the farm differential may be set at – with a long term view towards incrementally reducing the rating burden on the farm sector to make farm business rates comparable to rates paid by other sectors.

A rebate is not an appropriate tool for delivering fair rates for farm businesses, particularly as they can be easily confused with a refund. This undermines the principle of differential rating that maintains differential rates are not discounted rates A rebate can be easily misconstrued as a discount rate which undermines trust amongst ratepayers that everyone is paying a fair share.

Rebates are a useful tool if they are used to promote certain activities on land. For example, the Bass Coast Shire offers a rebate of 10% to farmers who undertake environmental stewardship on their land. This encourages smaller farms with absentee owners to manage pest plants and animals on their land, providing a third party benefit to all other landowners.

In setting a differential rate for farmland, the VFF encourages Council to consider how differential rates can be used to maintain more equitable and fair rate rises for all rating sectors, not just for farmers. As differential rates were introduced as a tool for councils to address equity issues arising from the land valuation method of determining rates, the fundamental principle should be that as the value of farmland increases, the differential rate is adjusted to reduce the rate in the dollar so that the rate burden paid by all rating sectors remains stable.

The VFF encourages Council to look at strategies employed recently in Ararat Rural City Council's 2020/21 and 2021/22 Budget and Mansfield Shire's 2021/22 Budget which maintained the burden across rating sectors and avoided 'rates shock' caused by the asymmetry in valuation increases.

Definition of farmland

Council's consultation is asking respondents what they believe is a fair definition of farmland to have the differential rate applied to. In setting a farm differential rate, the VFF recommends that it only apply to properties that fall within the definition of 'farm land' under Section 2(1) of the *Valuation of Land Act 1960* which states:

"Farm land" means any rateable land -
(a) that is not less than 2 hectares in area; and
(b) is used primarily for grazing (including agistment), dairying, pig-farming, poultry-farming, fish-farming, tree farming, bee-keeping, viticulture, horticulture, fruit-growing or the growing of crops of any kind or for any combination of those activities; and
(c) that is used by a business
(i) that has a significant and substantial commercial purpose or character; and
(ii) that seeks to make a profit on a continuous or repetitive basis from its activities on the land, and
(iii) that is making a profit from its activities on the land, or that has a reasonable prospect of making a profit from its activities on the land if it continues to operate in the way that it is operating.

It is imperative that councils strike the rates on the basis of commercial farm operations being undertaken on the property. Councils are given broad scope in how they may apply differential rates. This has led to inconsistent definitions of land use which leads to non-commercial properties enjoying the same rates as those of working farms, or commercial farms not receiving the reduced rate that they should.

In saying this, the VFF notes concerns amongst many in the local farming community towards the apparent inequitable contribution that the timber plantation sector makes towards Council's rating base compared to agricultural land. This concern is of particular concern due to the timber sector's impact on Council's road network.

The VFF notes that under the present Ministerial Guidelines for Differential Rating, differential rates that discriminate between agricultural land and land used for farm forestry or plantation timber are not deemed as an appropriate use of the differential rating power.

The VFF recognises the challenge this represents for Council in its attempt to ensure the timber industry makes a fair contribution to the infrastructure it relies and has an impact on, particularly in a region where the Victorian State Government is continually failing to invest in road infrastructure.

Community Consultation

In closing, the VFF wishes to note its disappointment with the lack of community consultation in dealing with Council's proposed differential rate. After having worked with Council in 2021 to understand the importance of a differential rate, the VFF has asked to be kept appraised of Council's work in investigating the introduction of the differential. VFF staff had also signed up to Council's Your Say engagement platform to check for consultation updates.

Unfortunately, Council did not advise VFF of its proposed differential investigation, nor did VFF staff receive a notification through the Your Say platform at the time the current formal consultation process began. It was not until 10 February that the VFF was alerted to Council's proposal by our members, giving us two weeks to analyse Council's proposal and to consult with our local members. What's more, our members have informed us that most were unaware of Council's proposal and the consultation process, and that there appears to be a total lack awareness amongst the whole Glenelg community about it. This is bitterly disappointing given the significant impact the proposals would have on all ratepayers. This has been further compounded by the way the discussion paper has been drafted, which we believe obfuscates the impact of the rating proposal on the community.

Under the *Local Government Act 2020,* Council is required to undertake deliberative engagement processes with the community on important issues like its rating strategy . The Victorian Government notes the key characteristics of deliberative engagement are considered as being: authentic engagement with the community; good representation of the community in engagement activities; clear demonstration of how all views have been considered; accessible and relevant information available to the community to ensure the decision-making process and the community's level of influence is clear in each instance and that participants are fully informed.

In many respects, Council's current consultation process has failed to deliver against these principles. That is why the VFF recommends that Council extends the period of consultation for the community and allows for additional channels for community feedback to be heard, including through forums and drop in sessions.