

Growing the Business of Farming



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Chief Executive

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Local Government Study
Productivity Commission
Locked Bag 2
Collins St. East
Melbourne VIC 8003

By email: localgov@pc.gov.au

Re: Assessing Local Government Revenue Raising Capacity

Dear Sir

The NSW Farmers' Association (the 'Association') welcomes the opportunity to comment on the *Assessing Local Government Revenue Raising Capacity* Review by the Productivity Commission.

The Association has provided comments based on the Commission's terms of reference for the review and these are contained in the following pages.

The Association is the key representative body for both intensive and extensive agricultural industries in NSW ranging from broad acre, meat, wool and grain producers, to more specialised producers in the horticulture, dairy, poultry meat, egg, pork, oyster and goat industries.

As local government rate payers and users of services, our members have a strong interest in the operation of their local councils. Councils in NSW received a total of \$174 million dollars from farmland rates in 2004/05. Excluding the Sydney and metropolitan areas, this represents 13.4 per cent of total rates and annual charges revenue (excluding mining rates) and 11.47 per cent of total ordinary revenue.

If you require any further information on any of the issues raised in this submission, please contact the Association's General Manager - Policy, David Moffitt ph (02) 8251 1887.

Yours sincerely

Shaughn Morgan
CHIEF EXECUTIVE

Submission to the Productivity Commission Review of Local Government Revenue Raising Capacity

Viable local government is necessary to ensure that essential public services are maintained and developed. However the Association's members are concerned that in many cases local government does not have the resources to provide the necessary services and that the reliance on local landholders for rating income is too high. A report on the *Independent Inquiry into the Financial Sustainability of NSW Local Government* in 2006 found that 25 percent of NSW councils would be unsustainable over the next decade including 7 metropolitan councils, 13 in regional councils and 20 rural councils.

Excluding the Sydney and Metropolitan councils, farmland rates represent 17.8 per cent of total rates and annual charges revenue (excluding mining rates) for NSW Councils. As the organization representing the interests of farmers in NSW, the Association has a strong interest in the revenue raising methods and the activities of Local Government.

The Association is in regular contact with the NSW Local Government and Shires Association and recognizes that they are in a stronger position to make comment on the particulars of local government revenue raising capacity. The comments provided below are in the context of local government revenue raising impacts on farmers in NSW.

The Revenue Raising Capacity of Local Government

Over a number of years many rural and remote communities, particularly those with an initially small base, have experienced either static or decreasing populations. The key implication of declining populations has been the erosion of their rating base, and potential for increasing cost of services per capita. This ongoing trend, in conjunction with the associated skills shortage, has posed significant challenges to the long-term financial sustainability of many rural and remote councils.

A council's potential to raise revenue depends on the ability of the businesses and the residents to pay. The demographics of the agricultural landscape are changing with a reduction in the number of farms operating in rural communities. In 2003, the ABS¹ estimated there had been a 10 per cent decline in the number of farm businesses with an Expected Value of Agricultural Operation (EVAO) of \$5,000 or more per annum. Between 1994 and 2003, there was a 28 per cent decline in the number of farm businesses in the \$5,000–\$22,499 per annum EVAO category and a 5 per cent decline in the number of farm businesses in the \$22,500 and greater per annum EVAO category, which in combination resulted in a 10% overall decline in farm business numbers

Revenue Source

Compared to most other metropolitan local governments the rural and regional shires are limited in respect to their income earning capacity. Local governments in NSW have three major sources of revenue²:

- municipal rates – 47.6 per cent of total local government revenue;
- user charges – 16.8 per cent; and
- grants and subsidies from other spheres of government – 27.5 per cent;

¹ ABS 2004a, Agricultural Commodities, Cat. No. 7121.0, ABS, Canberra

² LGSA 2006. Independent Inquiry into the Financial Sustainability of NSW Local Governments, pg 194.

The remaining revenue of 8 per cent of income comes from a number of sources including interest income, dividends, interest on grants and subsidies and fines.

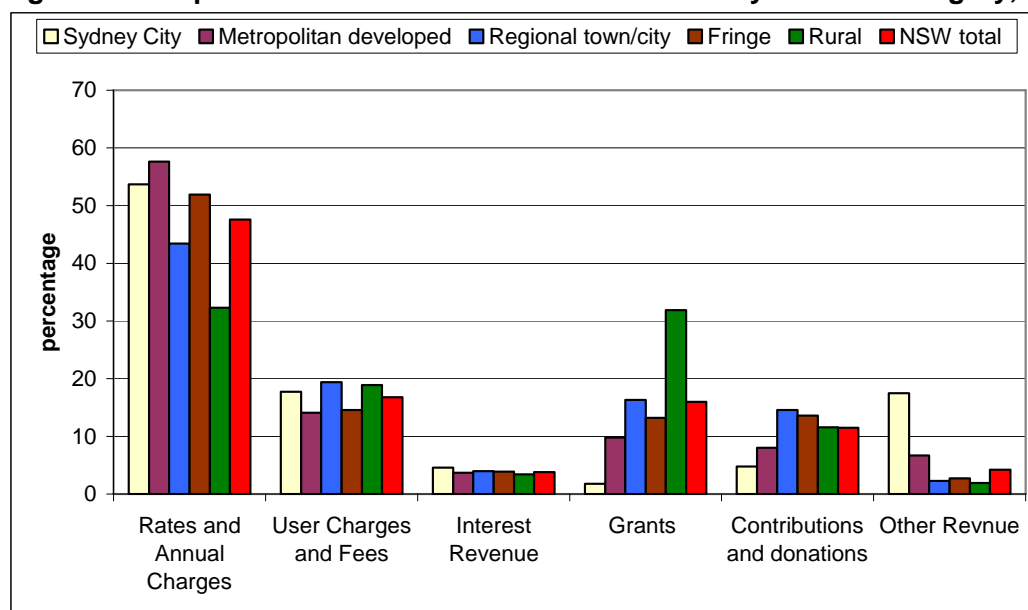
However there is a significant disparity in the ability of different councils to raise revenue due to the diversity between each council. The size of a council's own-source revenue such as rates, car parking fees, property rental income, fines, development application fees, user charges, etc is determined by the population size, economic activity, rating base and ability and /or willingness to impose user charges. Hence, while the NSW average for grants and subsidy revenue is 27.5 per cent of local government revenue, this rises to more than 70 per cent for some rural and remote councils where own-source revenue raising capacity can be severely limited.

Rates in NSW are calculated on the unimproved capital value recorded on the Land Valuation Register. The Association has a number of concerns with the valuation of land in NSW and the impacts this has on farmland rates. With the increasing population pressure and the increased demand for rural landholdings there has been a respective increase in land values that is not attributable to the actual earning capacity of the land. Farmland rates are now being calculated on a land value that may not reflect the actual earning capacity and therefore the ability to pay of the landholder.

Revenue - Regional differences

Figure 1 shows how the composition of revenue varies with councils in different regions. Councils in metropolitan Sydney (Sydney City Council and councils of the class urban, metropolitan developed) raise nearly 60 per cent of their revenue from council rates and annual charges (mainly domestic waste services) and obtain less than 10 per cent of their revenue from either grants or contributions and donations. On the other hand, rural councils raise only about a third of their revenue from rates and annual charges and obtain nearly as much revenue in government grants. The main common feature is that most areas receive about 15 to 17 per cent of their revenue in user charges and fees (as distinct from annual charges for waste services) and 3 to 4 per cent in interest income.

Figure 1: Composition of Local Government Revenue by Council Category, 2003/04³



³ LGSA 2006. Independent Inquiry into the Financial Sustainability of NSW Local Governments, pg 196.

Furthermore the graph further reveals the following points:

- The low proportion of rates revenue for rural councils and their high dependence on grants for revenue;
- This pattern of lower rates and higher grants is evident also, but to a lesser degree, in the regional towns and city grouping;
- A moderately stable proportion of user charges (and interest revenue) as a revenue source;
- The higher proportions of contributions and donations in the developing fringe and regional towns; and
- The higher proportion of other operating revenues in Sydney.

In rural areas farmland rates are a major contributor to the total rate revenue for the Council. Some rural local Councils, in their Management Plans, aim for farmland rates to contribute 63 per cent of the total rate collection.

Recommendation 1

That Local government be afforded autonomy in relation to local matters.

Recommendation 2

There should be a just and equitable share of Commonwealth government revenue equal to 3 per cent of income tax receipts made available to Local Government

Functions of Councils

A key responsibility of local government is to provide, develop and maintain infrastructure necessary to enable people to have access to economic and social facilities and services. Local government infrastructure includes local roads, bridges, footpaths, regional aerodromes, saleyards, water and sewerage, stormwater drainage, waste disposal, public buildings, swimming pools, parks, recreational and tourism facilities. The upgrading of water management systems is clearly recognised as an essential infrastructure development due to the ongoing pressures of water demand and water restrictions.

Most rural and regional councils with a small population and rate revenue bases have needed to contain their in-house service scope to a narrower range of services due to financial constraints. These small councils instead often try to provide better linkages to non-government organisations that are providing social and community services. However rural and regional councils in comparison to the metropolitan councils have increasingly had to take on responsibility for social services, such as management of health, youth, alcohol and drug problems, community safety and improved planning and accessible transport. A number of rural councils also contribute significantly to the running of country festivals, health clinics, theatre/museum, sporting facilities, visiting toy and book libraries, community halls, and animal pounds. Rural Councils are also required to fund marketing and tourism programs in an effort to encourage city and metropolitan visitors to their region.

Apart from the above a number of rural councils own and operate airports or aerodromes. These small airports generally cater for a low volume mix of private and commercial aviation operators and their passengers. Councils provide these facilities as they are seen as integral for better connecting their local residents to essential capital city services and attracting business and tourism investment. For many isolated or remote councils, their airport is often operated and retained to facilitate faster medical evacuations and support better access for other emergency-related services following natural disaster events.

Recommendation 3

State and Federal Governments must firmly establish priorities for local government funding so that local governments can plan for longer term commitments in implementing programmes that are primarily state and federal government initiatives.

Expenditure

On a national level approximately 69 per cent of council expenditure is spread over the following four key categories:

- Transport and communications – 24 per cent;
- Housing and community amenities - 23 per cent;
- General public services 7 per cent, and
- Recreation and culture 15 per cent.⁴

Expenditure Trends

Table 1 shows the comparative growth of each of the major operating expenditure components for NSW local government, against the base year of 1995/96. The growth in operating expenditure is compared to the Consumer Price Index and the Gross State Product.

Table 1: Comparative Growth 1995/1996 to 2003/04 (1995/96 Index 100)⁵

	2003-2004	CPI	GSP
Housing & Community Amenities	187.6	120.9	158.8
Public Order & Safety	179.2	120.9	158.8
Economic Affairs	175.5	120.9	158.8
Transport & Communication	170.1	120.9	158.8
Community Services & Education	158.4	120.9	158.8
Recreation & Culture	152.0	120.9	158.8
Water Supplies	130.0	120.9	158.8
Administration	130.2	120.9	158.8
Sewerage Service ²	128.5	120.9	158.8
Health	108.7	120.9	158.8
Mining, Manufacturing, Construction	107.0	120.9	158.8

The table illustrates the following:

- Housing and community amenities, public order and safety and economic affairs expenditure are showing rates of growth above gross state product;
- Community services and education and recreation and culture shows that rate of growth is close to gross state product;
- Unlike other operating expenditure components, water and sewerage services appear not to have grown significantly above CPI; and
- Health service expenditure shows low growth

Recommendation 4

Local government administration should concentrate on the provision of traditional services such as local roads, construction and maintenance;

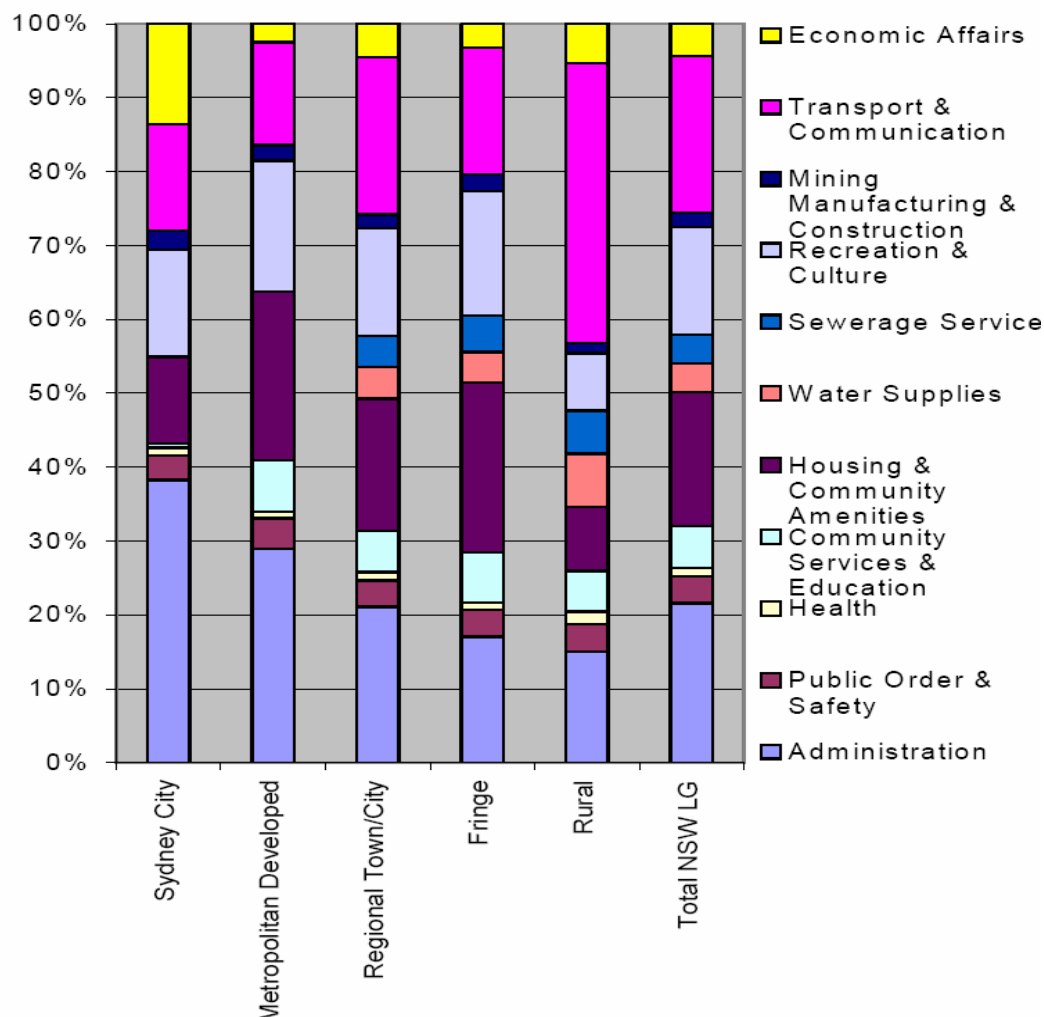
⁴ Australian Bureau of Statistics, Government Finance Statistics, cat. no. 5512.0

⁵ Calculated from NSW DLG (Comparative Data) 1995/96 to 2003/04; BIS Shrapnel 2006 (CPI & GSP)

Comparison of Expenditure of Metropolitan and Rural Councils

The comparative operating expenditure for Sydney and each of the four different classes of local government areas is shown in figure 2 below.

Figure 2: NSW Local Government Expenditure Distribution for Different Councils for 2003-2004⁶



The figure illustrates the following:

- The low proportion of administration expenditure for rural councils and their high expenditure on transport and communications, reflecting the importance of road construction and maintenance for this group;
- The markedly different patterns of expenditure for the City of Sydney, with higher administration, lower community services and education and higher economic affairs expenditure;
- The higher proportion of expenditure on housing and community amenities by the developing LGAs in fringe, metropolitan and regional towns groups;
- Water supply and sewerage service expenditure required in only the fringe, metropolitan and regional towns groups;
- The low proportion of expenditure by rural LGAs on recreation and culture; and
- The consistent low level of expenditure on health.

⁶ NSW Local Government Revenue and Expenditure Analysis, prepared for the *Independent Inquiry into the Financial Sustainability of New South Wales Local Government* by the Proteus Management Group Pty Ltd January 2006

The Impacts of Local Government Charges

A common issue raised by members of the Association is that while all residents are required to pay rates, the utilisation of local government services is generally less for farmers than urban residents. The Association is concerned that farmer residents are bearing a proportion of costs for which they do not access services and to that extent are cross subsidizing some other residents within the community. Some rural councils look at farmland rates to supply 63 per cent of their income, while only putting back 50 per cent of this figure to those ratepayers. An example which illustrates this point is provided as a case study below.

Case study: Farmer residing in the Ballina Shire

The farmer pays both urban (property in town) and rural (farmland) rates.

Their farmland rates are much more per rate payer than the average urban ratepayer. As an urban rate payer the person enjoys services such as water, sewerage, garbage, library, swimming pool (user pays fee), sporting fields, and community centre (user pays fee).

Whilst the farmer is entitled to use these same services as a farmland rate payer, usage is far less due to accessibility, and their proximity to town.

The farmer claims that the only direct service they use as a rural rate payer is access to the farm property via local/council road, which in many cases is poorly kept and maintained. The farmer claims that road grading of secondary and minor roads has reduced drastically, stating that their farm access road has not been graded for over 12 months and was only done so when they made a request with the council.

The local road also provides access to a government correctional facility, which does not pay rates to council.

The Association recognises that Local Government has a responsibility to provide access to services and infrastructure, for the public benefit, especially when the cost of which cannot be economically separated. among potential beneficiaries. The Association is however aware that for services where generally users can be clearly identified and external benefits can be excluded, councils can charge separately (user charges as outlined in the example). This applies to services such as waste collection, childcare facilities, caravan parks and swimming pools, etc. A greater focus on a user pays system would reduce the possibilities of cross subsidization.

Australia's climate is cyclical and severe weather conditions such droughts and floods are part of the regular weather conditions. This susceptibility to climatic variations and the seasonality of agricultural production dictates that farm income is not constant. As such, farmers ability to pay local government rates could vary greatly between years. It is acknowledged that local government requires a steady flow of revenue to meet ongoing and introduced costs, however the Association asks that consideration be given to the variability of farm income and a farmers ability to pay under extreme weather conditions.

Recommendation 5

That the Association seek that the payment of local government rates in drought declared areas be deferred without accruing interest.

The Impacts of State Regulatory Limitations

In 2005 following the decision by the State Government to separate water titles from land titles to allow for trading of water entitlements, prospective changes to state legislation had a number

of impacts on farmland rates. The *Local Government and Valuation of Land Amendment (Water Rights) Bill 2005* introduced the following changes:

- It allowed land categorised as farmland to be sub-categorised according to its ability to be irrigated.
- It removed the provision that required farmland rates to be the lowest ad valorem rate charged by Councils
- It introduced a provision that required the ordinary rate for any parcel of land in the category “farmland” to not increase by more than 20 per cent above the amount levied in the previous year.

These changes have had a negative effect on rural councils revenue with the total rate revenue collection for many rural councils being reduced. While the rates paid by irrigators have been reduced the rates paid by dryland farmers have increased. In many cases this has been by the maximum 20 per cent as the Council attempts to make up the rate revenue shortfall. This short term adjustment has caused a considerable amount of concern among our membership. As NSW is part way through the process there may not be an opportunity to change however it needs to be recorded as a lesson for future changes to rating structure to take into account all the possible adverse effects.

NSW Councils also operate under legislation that restricts the total amount of rate revenue collected to a three per cent increase on the previous year's rate revenue. It is understood that there is no restriction on increases in other revenue sources. The Association supports the rate pegging legislation as it limits the possible increase in rates that are charged to farmers. Where a council requests an exemption from the restriction the Association does not support the approval where the council's rate structure disadvantages the farming sector.

In addition to legislation that has a direct affect on local government revenue raising capacity there is a raft of other state legislation that has an indirect affect on the revenue raising capacity of local governments. National Parks currently do not pay local council rates and with 7 per cent of the state covered by national parks it represents a significant area of land within local government areas. This area is expected to expand in NSW with proposals for the establishment of a corridor along the Great Dividing Range and lands resumed for National Parks such as the Pilliga Gnoono. While National Parks do cover costs within the parks themselves visitors have impacts in the local government area that the local government has trouble collecting for, such as the damage caused to roads.

Rural areas of NSW are also experiencing an increase in the number of small landholders that are purchasing agricultural land and gifting or donating this land for conservation purposes. This land is in turn taken out of the land base on which rates are levied and results in a reduced ratepayer base.

Similarly forestry activities create additional pressures on local road infrastructure. Forests NSW currently do not contribute towards local government rates although there are some situations where agreements between NSW Forests and local councils provide for funding of some roads and local bridges.

Recommendation 6

That State Forests pay Local Government rates on areas of forests that are logged or planned to be logged.

Due to the increased public concern about climate change and the growing interest in carbon trading, there will be farmers within the community that participate in projects that lead to the creation of public benefits. Situations such as the setting aside of land for environmental

benefits or re-vegetation of private land will give rise to areas of land where farmers are no longer creating an income flow, however they will be required to pay rates.

Recommendation 7

The State and Federal Governments should make financial assistance available to Local Councils to offset rates for those farmers who are prepared to re-forest their properties for non-commercial purposes or, maintain or set-aside environmentally sensitive areas.

The Association is also concerned about the human resources and corporate governance skills available to local governments. These issues are more pertinent in rural and regional areas where appropriate resources may not be available. Local governments are responsible for large budgets of public monies and should be provided with the skills necessary to ensure appropriate accountability levels and enable local governments to utilise the funds for the maximum benefit of the community. Appropriate training and reporting procedures need to be provided to local governments to support the local governments in their activities.