James Jackson
President
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10 May 2021

Re: IPART Review of the rate peg to include population growth

NSW Farmers welcomes the opportunity to provide feedback to the Independent Pricing and Regulatory Tribunal of NSW (IPART) Review of the rate peg to include population growth.

The NSW Farmers' Association (NSW Farmers) is Australia's largest state farming organisation, representing the diversity of interests of its members. Our focus extends from issues affecting particular crops and animals, through to broader issues including the environment, biosecurity, water, economics, trade and rural and regional affairs.

NSW Farmers identifies as a priority that local government rating structures are transparent, fair and equitable across the various rate categories and landowners, and that all ratepayers have the potential to access the full suite of services funded by council rates.

In general farmers contribute a significant proportion of council rates in regional areas when compared to residential and business ratepayers, whilst often unable to derive the full benefit of council infrastructure and services. This may be due to size of landholding, land value and/or each council's rating structure.

For example, in the Snowy Valleys Council area, farmland rate assessments make up approximately 24% of the total rating pool with 2135 out of a total 8813 assessments (excluding mining).[1] However, the 2021-22 draft revenue policy indicates that farmland rates are expected to yield approximately $4,284,139 out of the total estimated yield of $9,225,015.[2] This equates to farmers contributing almost half of the Snowy Valleys Council rating yield at approximately 46%, whilst making up only 24% of ratepayers.

The situation in Uralla Shire Council is even more disproportionate as the farmland category contributed 58% of the rate base in 2020-21 despite making up only 20% of the ratepayers within the shire.[3]

As the nature of the farming business often requires large areas of land to undertake operations, even minor changes to local government rating can have significant financial and business cash flow implications for farmers. Therefore, any changes to the levying of rates must be carefully considered in terms of necessity, fairness and equity.

NSW Farmers is concerned about the lack of certainty of ongoing and sustainable funding for local government service delivery including road maintenance, but does not support annual variation of the rate peg to account for population growth if this is to be applied to primary producers.

Farmers are increasingly challenged in managing the overhead cost of local government rates. Factors such as environmental conditions play an ongoing and significant role in farm businesses, and can cause farm income to vary widely across multiple years. For example, during the recent severe drought, many farmers

[1] Snowy Valleys Council Rate Harmonisation Summary of Impacts
[2] Snowy Valleys Council Draft Revenue Policy 2021-22, page 4.
[3] Uralla Shire Council Combined Delivery Program 2017-2022 and Operational Plan 2020-2021, page 75.

were unable to plant or harvest crops and were forced to destock their animals, resulting in severely reduced income.

For many, local government rates are a significant proportion of income to be set aside each year due to the size of landholdings required to carry out primary production. The substantial increase of land value has added to this challenge, as have amalgamations in some areas, leading to uncertainty and difficulty in planning for farm business costs.

Population growth is likely to lead to higher density populations in urban centres and greater use of and demand for service amenities. NSW Farmers considers that it is fair to increase expenses and amenities where growth is occurring – in towns and urban centres. As urban development is essentially aligned with population growth, NSW Farmers suggests that any rate peg increase be absorbed by the rating categories contributing to urban growth. In addition to expanding facilities and services, this will also contribute to the cost of developing new areas including paving new roads, installing curb and guttering, connecting water and sewerage, etc. as well as the direct costs resulting from population growth and services provision required.

Residential and potentially business rating categories require urban development to meet the needs of population growth, with new residents moving in and businesses receiving benefit through improved facilities and services and increased custom. Farmland ratepayers however are unlikely to derive direct benefit from urban growth, as their access to facilities and services will not change and there may be a consequential contraction of agricultural land as a consequence of urban expansion. Focus may also move to ensuring provision of greater services and facilities for the expanded urban population, potentially to the degradation of less visible services such as weed management.

Rate peg variation to include population growth, and the potential unintended consequence of farmland rate rises, is primarily a concern for primary producers situated in the urban fringe, such as Central Coast Council. These areas, once prosperous areas of agricultural production, have slowly transformed to make way for an expanding urban population and accompanying businesses and industry in close proximity to large centres. These areas now typically have a smaller proportion of farmland ratepayers with high land values due to their urban proximity, and can be subjected to the burden of any changes in local government rates, such as the significant rate peg variation of 15% requested by Central Coast Council. Whilst this increase will impact all ratepayers, the effects are significantly amplified for primary producers due to their large landholdings with high value land, jeopardising their ongoing viability.

Population growth varies local government area to local government area (LGA), and as noted in the issues paper, is concentrated in metropolitan areas. However, as reported recently in *The Australian*, migration to the regions across Australia is at an all-time high, with almost 43,000 more people moving to regional areas from cities rather than relocating the other way in 2020.[4] In NSW, 12,700 people moved to the regions and this has already had a pronounced impact on property prices.[5]

While some LGAs in rural and regional areas are experiencing this growth, particularly in urban centres, others are declining. NSW Farmers agrees that LGAs experiencing a population decline should not be entitled to less rates revenue under a reformed rate peg methodology relative to the current rate peg, but is concerned that this will make it more difficult for rural councils to access adequate funding through alternate sources to continue to provide services to their residents. Councils manage many costs that may not be immediately visible to the ratepayer such as depreciation of assets and ongoing maintenance. It is not optimal for ratepayers to bear the burden of operational costs of councils when funding from state and federal governments could be improved.

NSW Farmers considers that the current process of Commonwealth specific purpose grants and general purpose grants should be reviewed. Ad hoc and short term funding to local government, especially through

[4] Lunn, S. and Snowden, A., *The Australian*, 5 May 2021, 'Regions bloom as citysiders vote with feet', page 1.
[5] As above.

Federal Assistance Grants for infrastructure such as road maintenance creates an inefficient and unstainable system for delivery of services, and impedes long term planning and management. Too often these grants are based on historical levels of usage not on projected demand unless subject to major economic development strategies. We are concerned that the intrinsic value of the provision of infrastructure must rest in the economic value that should follow as a result of the funding. With reducing and ageing populations in many regional and rural areas, the case for funding is often skewed to larger urban or metropolitan areas – rather than the essential regional connectors that support these larger areas.

A potential issue for regional councils experiencing population growth is that they would still likely have a smaller base population from which to draw rating revenue. This could result in a higher rating burden for people living in rural and regional areas if the rate peg were to be uniformly lifted wherever population growth was occurring. If new subdivisions are constructed as part of the growth this involves substantial costs for a small council, including establishing facilities and services such as playgrounds, toilets and storm water systems to cope with the increased area of sealed surfaces, and the ongoing maintenance and depreciation costs. Larger, metropolitan councils may be better able to absorb these ongoing costs through a larger rating base and other council income.

NSW Farmers therefore holds concerns around how a fair population growth factor could be set for the rate peg due to the great variation in population growth and individual LGA characteristics across the state. For example, grouping by geographic area could be problematic as each LGA could vary considerably, despite being located in a similar location. It would be difficult to apply a blanket variation for the state due to a variety of determining factors, so whilst potentially more inefficient, if a rate peg variation is progressed, consideration of LGAs on a case by case basis may be the most appropriate.

Smaller shire councils are showing farmland rates that are nearly double that of neighbouring larger regional or city councils where the population growth pressure is being felt – but without the resultant growth in ratepayers. While larger regional councils can subsidise farmland ratepayers, smaller ones generally do not and cannot afford to.

In relation to the potential use of the supplementary valuation process to increase income for growth, NSW Farmers is concerned that primary producers may be negatively, and therefore disproportionately affected. To some extent this has arisen in circumstances where farmers have received increased land valuations due to a potential ability to subdivide. Many farmers do not wish to subdivide, and the zoning remains classified as farmland. However, this increased land value consequently increases local government rates. This does not impact upon the ability of the farmers to increase their productivity, and is an inequitable imposition.

An additional NSW Farmers concern is that the rate peg does not take into consideration the constant cost shifting between state and local government. For example, local councils are required to contribute significant amounts to cover the emergency services levy. While there is a NSW Government rebate to LGAs this does not cover the full financial impost. This is particularly a problem in rural and regional areas, where it is deemed there is a greater demand for RFS services. For example, one small regional council estimates that they will experience a 58% increase in costs for the next financial year due to the levy, while a larger regional council estimates that the cost of the emergency services levy will absorb most, if not all, of the annual rate peg of 2% in 2021-22. This means that councils will be at a disadvantage to provide essential services for residents, and many residents will be required to pay additional contributions if they also have insurance. NSW Farmers considers that the burden of the emergency services levy must be more fairly and equitably managed across the broader community including contribution from alternate revenue sources and/or NSW Government consolidated revenue.

Alternative funding options

NSW Farmers supports greater certainty and increased funding from state and federal government rather than a rate increase at the local government level. If a decision is made to enable the rate peg to account for population growth, rural and regional councils will continue to be disadvantaged, and the disparity between city and country councils will likely grow.

Regional councils are still required to provide facilities and services for their ratepayers, despite drawing from a smaller ratepayer pool. To address funding issues for local councils, NSW Farmers suggests that there is greater government funding and certainty to aid local councils in performing their core business.

NSW Farmers recommends that local government funding is better supported through:

- establishing State and federal government local government funding priorities to enable long term planning for initiatives;
- an equitable share of Commonwealth revenue equal to 3% of income tax receipts;
- receiving a designated, fair share of Federal Government tax revenue, such as 2% of GST;
- increasing grants from State and Federal government, such as the Federal Assistance Grant;
- prevention of cost shifting to local government, and a service contract if the NSW government decreases its contribution to local government.

NSW Farmers requires as a matter of urgency a review of rate exemptions to mandate that NSW and federal government agencies, such as State Forests, National Parks and plantation timber, pay local government rates to account for their significant use of public infrastructure and services, such as roads. This would go some way to achieving a fairer and more equitable rating system by spreading the cost of maintaining infrastructure more appropriately amongst those who use it.

It is critical that farmers are not subjected to further increases in local government rating based merely on the area of land they own to run their business. Land values have risen significantly in recent years which has already increased the local government rating burden for farmers whilst having no impact on their ability to increase productivity or access to local government services.

Agriculture and the green space it provides is critical to the continued availability of fresh, local produce and to balance the effects of pollution and urban development.

NSW Farmers seeks the fair and equitable provision of local government services to the farming community and other stakeholders, at a fair and equitable cost to all ratepayers. We support the continuation of rate pegging, but only support variation of the rate peg to account for population growth if it is not applied to the farming sector and will not lead to a rate rise for primary producers.

Should further information be required your office is invited to contact Renee Austin, Policy Advisor on 02 [redacted]

Yours sincerely

[redacted]

President

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