SUBMISSION 16
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To The Executive Officer, ENRRDC
Parliament House
Spring St East Melbourne 3002

Submission by
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RE: Inquiry into the sustainability and operational challenges of Victorian rural and regional councils

Thank you for the opportunity to make a submission to this inquiry. My occupation is Manager of our commercially operated family farm business. My submission is specific to municipal rates and the inequities in relation to **the farm rate category**. I wish to address the following terms of reference.

"fairness, equity and adequacy of rating systems"

Background

Our family have grown and marketed cereal grain, lamb and wool for the past 95 years. The commercially run farm business has remained economically and environmentally sustainable against long standing periods of drought and market fluctuations whilst still being able to focus on debt reduction and best practice management.

At present, our municipal farm rates is one of our largest annual accounts. **The 2015/16 rate bill was $30,000 including the Fire Service Levy.**

The inequity of municipal rates on farm land has been widely acknowledged by full time primary producers across the State of Victoria for decades. The first productivity commission into the inequity in farm rates dates back to the 1990's. The Victorian Farmers Federation (VFF) have written numerous reports also supporting the issue of inequity in farm rates. The latest VFF report dated March 2015 ***Inequities in Rural Rating*** provides further evidence of the unsustainable position producers are currently facing.

In my view and shared by other producers across Victoria is the rating system is structurally broken. The current system is impeding growth of otherwise productive and innovative primary producers. The differential rating guidelines introduced in 2013 and the recent introduction of rate capping have also proven to be inadequate.

Over the past five years I've analysed all aspects of the Local Government Act (LGA) and the Land Valuations Act (LVA) and spoken and written to numerous members of parliament, Ministers and the Valued General. It's agreed municipal rates on farm land is problematic. However, most believe it's a local government issue. Clearly after so many years with no significant action it's far surpassed a local government issue.

If government are genuinely serious about Victorian producers maintaining high productivity and having further export potential then urgent rate reform is needed. The rating system in its current form is highly discriminatory towards primary producers and is completely unsustainable and out of step with modern day farming practices.

To help further explain the municipal rates situation see below a statement followed by a solution

In the LGA under 3c (1) objectives of a council is to have regard to the long term and cumulative effects of decisions.

My research finds councils in different areas across Victoria are failing to have an adequate understanding of the cumulative effects of their decision making. This is illustrated by the attached document. The document highlights the economic output of non-farm commercial businesses v's commercial farm businesses. It clearly shows the significant difference between the output of the two categories and then compares the amount of rates paid for each category.

How can council show sound sustainable economic management if they can't recognise the huge disparity between two rating categories and the long term cumulative effects this is having to the farm rate category. **As shown in the example I have looked across three different regions and the outcome is the same. The farm rate category is paying excessive rates in comparison to its economic output.**

Solution change the LGA to remove agricultural land from being rated.

Municipal rates are determined by the Land Valuation Act

Valuing land to determine the wealth of the business and capacity to pay is floored for several reasons. The first example is demonstrated above with regards to economic output. To explain this further see example - A commercial plumber with a factory sits on .2ha. The business operates out of the factory and turns over $2.5 mil. For the purpose of municipal rates however only the .2ha and the factory is rated. The rates for this business is insignificant (aprox$2k). In comparison, a farm business is rated on the bare land which is the actual asset which is used to generate the income. The farm business with a turnover of $300k would pay in excess of $10k. How is that fair and equitable?

Solution Change the LGA to remove agricultural land from being rated

1 in 4 rule excuse

Councils like to fall back on the 1 in 4 rule when setting the differential rates. Councils claim they can't give a greater differential to the farm rate category as it will negatively impact on council revenue.

Solution Change the LGA to remove agricultural land from being rated

Local government display a lack of industry knowledge on the agricultural industry which intern leads to weak rating strategies and polices

As a past committee member of a Rural Advisory Committee (RAC) (s86) for the Moorabool Shire Council I experienced firsthand the lack of general knowledge the council staff had with regards to the farm sector. Members of the RAC tried to bring to the attention issues of the inequities and unfairness of the rating system and **what it meant for the younger producers being able to remain viable** in the industry and be in the position to support their own communities. These concerns were largely ignored.

Solution RAC's should be on all rural and regional councils to ensure issues relating to agriculture such as planning, rating policy, land and environmental management are addressed by a committee with the relevant expertise. As a voluntary committee it comes at little cost to the Council

Farm business numbers Property numbers v's Rate assessments

In the VFF March 2015 report it clearly identified councils across Victoria not being able to line up farm business numbers with rate assessments. As an example in the Moorabool Shire budget 2014/15 it stated 1507 farm assessments but only 412 farm businesses. For the purpose of the budget, council refer to the assessments (not businesses) so when looking at rates paid per category the farm rate appears low because its assumed one rate assessment equals one farm business. **What council don't disclose is on average a farm business in Moorabool has 4 rate assessments. Therefore, the real cost of rates to a farm business is well in excess of the single assessment councils are using in their budgets. The 2015 VFF report illustrates council budgets right across Victoria reflecting the same misleading information**. I've asked Moorabool Council to justify their farm business numbers which they will not do. This is further discrimination of the farm sector by not accurately reflecting the true cost of rates paid by an individual rating category. How is this fair and equitable?

Solution councils should reflect accurate business numbers across all rating categories to ensure fair and equitable distribution of rates

Municipal farm rates is a localised problem felt most by those who farm in peri urban councils

The peri urban regions may be hardest hit due to the rise of 'land banking' and in some specific areas potential for re zoning. However, the rates issues is widespread right across Victoria simply due to the structure of how rates are calculated with an unfair and inequitable outcome for primary producers.

Solution Change the LGA to remove agricultural land from being rated

The problem is too complex to resolve

The issue of inequity, fairness and adequacy of the rating system against primary producers is said by governments to be too complex and difficult to resolve. This is simply passing the blame instead of looking at the **long term cumulative effects it's having on business productivity**

Currently the majority of councils calculate land values using Capital Improved Value (CIV).

Solution to be fair and equitable council should rate the farm businesses on the difference between site value and capital improved value.

As an example, a farm is valued on CIV of $1.2 million with a site value (land value) $1 mil. Making the Capital improvements of $200k

Therefore, rates can only be charged on the capital improved value of $200k. By doing this it better aligns farm businesses with other non-farm commercial businesses.

The local government act also needs to **tighten up definitions** of 'farm land' and what constitutes a genuine farm operation to insure the ones receiving the farm rate are indeed entitled to it.

In summary

Primary production across Victoria has and continues to play a significant role to the economy the environment and the health and social wellbeing of rural communities. The debate on rating farm land has gone on far too long. It's now at a stage where it's affecting the management decisions of producers and limiting their productivity and ability to remain competitive in a global economy. **Australia is one of few if not the only country that stills taxes bare land.** Rate reform is desperately needed to maintain long term confidence in the agriculture sector.

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Chris Sharkey

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