



Submission to the Review of the Local Government Act 1989:

Discussion Paper

Date: December 2015

## **The Victorian Farmers Federation**


The Victorian Farmers Federation (VFF), Australia's largest state farmer organisation and only recognised consistent voice on issues affecting rural Victoria, welcomes the opportunity to comment on the Local Government Act review.

Victoria is home to 25 per cent of the nation's farms. They attract neither government export subsidies nor tariff support. Despite farming on only three per cent of Australia's available agricultural land, Victorians produce 30 per cent of the nation's agricultural product. The VFF represents the interests of our State's dairy, livestock, grains, horticulture, flowers, chicken meat, pigs and egg producers.

The VFF consists of a nine person Board of Directors, with seven elected members and two appointed directors, a member representative General Council to set policy and eight commodity groups representing dairy, grains, livestock, horticulture, chicken meat, pigs, flowers and egg industries.

Farmers are elected by their peers to direct each of the commodity groups and are supported by Melbourne-based staff.

Each VFF member is represented locally by one of the 230 VFF branches across the state and through their commodity representatives at local, district, state and national levels. The VFF also represents farmers' views on hundreds of industry and government forums.



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## Introduction

The Victorian Farmers Federation (VFF) welcomes the opportunity to provide feedback to the Review of the Local Government Act 1989. The VFF has been long arguing for reforms in the management of local government – especially around fees and charges. We hope that this review process can open up for discussion many of the important issues which centre on the sustainability of rural and regional councils.

For members of the Victorian Farmers Federation as rural rate payers, the management of local government is a matter of some significance.

Our rural and regional councils are suffering from diminishing income support from State and Federal governments, compounded by an ever increasing list of responsibilities. Many of these new responsibilities are transferred to local government by the State government with the provision of short term funding. This in many cases is not successively renewed. Pressure is then placed on local governments to bridge the funding gap through other means – putting the focus squarely on rate payers.

The model for the operation of rural and regional councils is unsustainable. Increasingly councils are turning back to ratepayers to top up the budget. This is resulting in year on year escalations to local government rates. While the new Fair Go Rates System is welcomed to increase the scrutiny around budget decision making and prevent unlimited rate escalations, the VFF are concerned that the rate cap will not fix the underlying problems VFF members are facing.

Analysis undertaken by the VFF on the 2014-2015 budget year across all Victorian rural and regional councils, clearly demonstrated that there is a disproportionate and inequitable burden on primary producers as local government rate payers. The ‘average farm assessment’ is not a reasonable measure of the rate burden shouldered by farm owners. Our analysis found that on average farm businesses are paying two and a half times more in local government rates than comparable commercial businesses.

These enormous financial expectations on farm businesses are not sustainable, especially during years with poor seasonal conditions, where the capacity for farmers to pay their council rates may be reduced further still. There is a clear need to rebalance the funding structure of local government.

Service distribution across local government is not consistent amongst ratepayers. There is a clear disparity between the services that are directly provided to rate payers within the town, against those who own properties outside of the urban township. Due to distance for example, access to rubbish collection services may not be provided to a ratepayer who is paying three of four times more than a residential ratepayer in a township.

A broader disparity exists between all ratepayers within rural and regional councils, in comparison to their metropolitan counterparts. The variation and inequity in the payment of local government rates can be clearly identified when making comparisons between the base rate in the dollar which is applied to rural councils against the rate in the dollar which is applied to metropolitan ratepayers.

For example, ratepayers in Swan Hill City council are paying rates of 0.00647 cents to the dollar, while in the metropolitan council of Maroondah rate are far less at 0.00274 cents to the dollar. A discrepancy exists simply on the ratepayers choice on where they choose to live.

## **Discussion paper feedback**

Sections of the Local Government Act which cover the fees and charges applicable to ratepayers are the key areas of interest for the VFF. The Act must facilitate engagement with ratepayers and operates openly and transparently. As such, recommendations around this section of the discussion paper have been brought forward in the feedback section of our submission. To illustrate some of the concerns of the VFF, additional information and analysis has been included in appendices to this report.

### **Chapter 6: Council rates and charges**

Rural and regional councils are at a substantial disadvantage when it comes to collecting rates from ratepayers. The discussion paper (page 68) acknowledges that council rates and charges are the primary source of income for a council. In rural councils, the population of ratepayers are substantially smaller than in regional centres and indeed metropolitan areas, yet they are responsible for much larger areas of land. The lack of population density limits the income capabilities of local government for their ratepayers, but this does not absolve councils of their requirements to maintain roads, infrastructure and other assets of the council.

Rural and regional councils are highly reliant on the grants provided through both the Victorian and Commonwealth Governments for income support. Many of these grants have been reduced or ceased entirely over the last two successive budget periods. For example, the freeze on indexation of Commonwealth Financial Assistance Grants to Victorian local councils has cost Victorian councils \$118 million over three years. The loss of State grants to rural and regional councils has also had an impact on their ability to deliver services to their communities – the failure to continue the Country Roads and Bridges Program has had a \$1 million impact per regional council, per year.

With rural and regional councils undoubtedly affected by the loss of grant funding – it places the focus for revenue generation squarely back on the councils ratepayers, many of whom are primary producers such as in Buloke, Hindmarsh, West Wimmera and Yarriambiack.

This is why the VFF has been calling for a review into the sustainability of Local Government. In 2014, a petition signed by rural and regional ratepayers was tabled in the Victorian Parliament. Despite being signed by over 3300 members of the community, neither the then Government nor Opposition were willing to support a comprehensive review into the ongoing equity and fairness of the local government rating system.

The introduction of the Fair Go Rates System and rate cap, to be introduced from the 2016-2017 budget year will assist to a certain degree with providing some clarity and transparency around the decisions that council are making. This will hold them not only accountable to their ratepayers, but also to a higher authority.

The VFF strongly agrees with the view expressed in the discussion paper that “making landholders primarily liable for paying rates and charges may be considered out of step with the broad range of

services councils now provide”<sup>1</sup>. While the VFF note that there are user pays processes in place for a number of services offered by the council, the largest proportion of their income from ratepayers come from general rates and the municipal charge (56% for rates and charges, 14% user fees and charges<sup>2</sup>). Primary producers hold substantial landholdings, all of which are subject to contribute rate income to local governments. Yet the benefit that they received is comparatively no different to a resident paying rates on a single residential property.

The discussion paper<sup>3</sup> goes further to suggest that “in the case of general rates, land values are used to levy the annual rates paid by landowners. This is based on their capacity to pay, and reflects the principle that the amount paid should reflect individual economic circumstances”. Nothing could be further from reality for rural and regional ratepayers. The simple fact that a landowner owns a certain area of land, does in no way correlate with the income that can be derived from the land from agricultural production.

### ***Declaring and levying rates and charges***

The VFF undertook an extensive analysis of the 2014-2014 budgets for all rural and regional Victorian councils. This complete report is provided as an appendix to this submission. Central to this analysis was an assessment of the business unit impact of rates on a farming enterprise. Over time, farm businesses have expanded with farm property amalgamations occurring. It is not uncommon now for farm businesses to own numerous properties as part of the one enterprise. A single farm exemption may be offered for the municipal charge, but a rate in the dollar based on capital improved value (CIV) is still payable on the collective value of land.

The analysis found that it is inaccurate to merely look at the ‘per assessment’ figures for farm land. A review of the number of farm assessments in a municipal council against the number of farm businesses in the same area showed very different results. In undertaking this analysis, it became clear that the average rate payment for a farm business is two and a half times more than other commercial businesses. To illustrate the findings of the analysis<sup>4</sup> -statistics from the Australian Bureau of Statistics showed that there were 1269 agricultural businesses in the Shire of Campaspe, yet the council was reporting 3729 farm assessments annually. On average, this means that farm businesses are paying 2.9 average assessments per farm business. Extrapolating this out, the average farm in the Campaspe Shire is paying \$5050 in rates. This is much higher than the average commercial assessment of \$2,663.

### **Rateability of land**

The VFF believe that the current model for collecting property taxes to fund local government is flawed. An inequitable burden is placed on farm business owners under the current model, which does not adequately consider the capacity of farmers to pay for their rates and greatly contributes to the ongoing concerns about the sustainability in the funding models for local government.

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<sup>1</sup> Discussion paper, page 69

<sup>2</sup> Discussion paper, page 68

<sup>3</sup> Discussion paper, page 72

<sup>4</sup> Appendix, page 22-26

The VFF submit that municipal rates should not be paid on farm land. Rather, to ensure that there is equity across all ratepayers in a municipality and indeed across the state, rates should be assessed on house and curtilage only, evenly across a local government region.

The VFF appreciate that there would be a requirement for a transition to be enacted to move towards this goal. Our comments on the farm land differential and the municipal charge (as follows) should stand be viewed as this transition.

### **The Farm land differential**

The VFF are strongly supportive of the use of the farm land differential.

In regards to the availability and application of differential rates to farm land, the VFF recommends the following amendments to the Local Government Act:

- The Local Government Act should be amended to require the application of differential rates to farm land.
- In decision making around the setting of a differential farm rate, Local Government should be required to collection information on the number of farm businesses and consider this information in the imposition of differential rates.
- That the Act is amended to require councils to disclose the rates paid per business in addition to per assessment

As the structure of payments around municipal rates currently stands, the farm differential is essential to creating some equity between ratepayers.

### **The municipal charge**

The municipal charge should continue to be a flat rate, levied on all ratepayers in the local government region.

The municipal charge provides local governments a clear opportunity to levy a fair and consistent charge across their constituents. However, the current provisions provided to Victorian local governments through the Act are restrictive.

The VFF believes that there is a requirement for the balance between the general rate and municipal charge to change. As such, we argue that the restriction placed on local governments that limits the percentage of their total revenue from municipal rates to 20% should be removed. Instead a minimum loading into municipal rates should be promoted. The VFF argue that local government should be permitted and encouraged to apply a minimum of their rate income 20% onto the municipal charge, with no maximum.

## **Chapter 2: The role of councils**

The ultimate role of councils should be to ensure that there are cost effective and appropriate services available to their constituency, which are strengthened through council and councillor engagement with the community.

### ***The role and function of councils***

The VFF would suggest that changes to the level of prescription in the Local Government Act following the introduction of the 2003 Charter, has facilitated the distribution of additional tasks to local government – so that more responsibilities are placed on local government than there has been before.

In many rural and regional councils, the historic focus of council services centring around roads and rubbish has shifted. With increasingly urbanised populations and “tree changers” moving into council areas, the types of services demanded by the population are changing as well.

Members of the VFF, as ratepayers on farm land, have seen their local government rates increase year on year but struggle to see an appreciable increase in the services which they have access to. Many cite that the changes in the services and charges which they are paying are a result of amalgamations between councils. This is especially the view where a rural council and a regional city council were merged. Council budgets which were once dominated by the management and maintenance of roads in addition to rubbish disposal, now offer a broader range of services. Many of these services are provided within the regional centre such as art centres and community hubs that many members of the rural community do not access on a frequent basis.

### ***Administrative decision making***

The VFF has seen an increasing move away from the “administrative decision making” that councils are charged with, to decision making that has increasing pressure placed on outcomes from others in the community. This has been demonstrated no more so than in planning decision making by councils- especially in the space of changes to agricultural production systems. There have been a number of recent cases where local community politics have played a role in the planning decisions ultimately made by a local government- either the decisions made by the local government themselves, or the response of the community to such decisions. These come back to the initial application of the planning scheme by a staff member of the local government and the actions which are taken by councillors when faced with judging these decisions on their merits.

Agriculture is an industry which continually evolves. To remain as efficient, productive and profitable as possible, the farming practices and technology utilised on farm change over time. In rural and regional councils, which may have limited resources or expertise in some planning matters, the provision of support by the State government is paramount to delivering positive outcomes.

The discussion paper notes that VCAT or indeed the Supreme Court at times, provides oversight over the administrative decision making of a council. Notwithstanding the view that the VFF would like to suggest some changes to the planning system to allow for improved protection for agriculture; in principle the VFF supports the process and guidelines of the planning scheme. We are however concerned that the protection which the farm zone once afforded to farm businesses operating in



the region has been eroded in many areas by community pressure. Increasingly, the decisions of agriculturally supportive councils are being challenged by others in the community and brought before VCAT. The Act must ensure that there is a clear balance achieved between the active decision making of councils and ensuring that they are accountable, against nuisance complaints which may arise from the community.

## **Chapter 3: How councils are elected**

### ***Requirements and qualifications of councillors***

The VFF supports the addition of skills based appointments to local councils, to supplement the local knowledge and skills of elected representatives. Local governments are multi-million dollar businesses, yet despite being well meaning strong advocates for their community, many councillors do not have formalised business management, accountancy or strategy backgrounds. The inclusion of representatives on the council who hold these skills would be highly beneficial to ensure that council operates in a strategic and high level policy space.

### ***Providing information on candidates to voters***

The VFF strongly encourages its members to be informed and engage with councillor candidates in the lead up to local government elections. During election periods, the VFF has assisted members in running “get to know the candidate” sessions where candidates have been provided with a forum to outline their vision and constituents can ask specific questions of candidates. Sessions such as these provide a fair platform for all candidates to be provided with a hearing and have the opportunity to engage with the community. There is merit in enabling consistent information on councillors to be made available with the voting packs which are mailed out, to supplement any such public forums.

### ***Voting in elections***

Councillors elected to lead a local government are expected to represent their constituency. Many farmers own more than one rateable property within a local government area and are paying rates for all the land which they own. As such, whatever model which is applied should always ensure that local government ratepayers are clearly captured on the voter roll.

For rural and regional councils, to facilitate fairness amongst candidates and to not disadvantage voters who may be some distance from an attendance polling booth, postal voting is preferable.

## **Chapter 4: How councils operate**

### ***Councillor allowances and expenses***

The introduction of the amendments to the Local Government (Planning and Reporting) Regulations 2014, should make available more consistent and transparent information on the operating costs of councillor positions. It is noted in the discussion paper that there is a disparity between the allowances provided to metropolitan councillors and their rural and regional counterparts. The VFF would not wish to see an increase in the payments provided to local councillors to bring them in line with metropolitan councils as this would result in increased financial burden to the local council – which could only be managed through raising local government rates or alternately reducing services to ratepayers.

To improve clarity and transparency for ratepayers, the councillors themselves and indeed the budget bottom line, it is recommended that the Act provide specifics around what items are covered under the allowance and what items can be reimbursed after the cost has been incurred.

### ***Council proceedings***

The Local Government Act should retain provisions around the governance of council meetings. In holding their elected position, councillors should be expected to physically attend council meetings that are advertised in advance and open to the public. Enforcing this expectation provides some comfort to the community and a transparent process for issues which are being brought to the attention of councillors. These council meetings should enable members of the community to have an appropriate level of participation in proceedings.

It is appropriate for non-decision making meetings or briefings such as “assemblies of councillors” to be held via electronic meeting.

### ***Consultation and engagement***

As the requirement to consult with the community would vary depending on the matter at hand, the VFF are comfortable with the general nature of the consultation requirements within the Local Government Act. However, these could be supplemented by regulations or guidelines prepared by the Minister, that could articulate consultation expectations in certain circumstances. For example, in presenting information on compliance with the annual rate cap to the Essential Services Commission (ESC), more specific guidelines could be issued by the Minister (following consultation with the ESC) to ensure adequate consultation occurs on the annual council budget and any rate increase which may be sought.

Councils need to be continually mindful of the different levels of electronic connectivity and the broader communication preferences of residents. For many, public notice being included in the local newspaper would be the most preferable method of communication with ratepayers. For others, social or other electronic media would be most preferable.

## **Chapter 5: Planning and reporting**

### ***Requirement of council to report on strategy, budget and operations***

Council should be expected to ensure that there is an open forum for discussion around the proposed budget and invite submissions from the community. With the introduction of the Fair Go Rates System, it will be especially important for councils to ensure that they appropriately consult and inform their community. The Fair Go Rates System provides for the ESC to grant a variation, which allows a local government to strike council rates in excess of the year's rate cap. Given that there is a requirement on councils seeking a variation to provide details on when the 'above cap' rates will cease, some consideration could be given to providing an indication of what council rates would be in advance. This type of process is utilised by Victorian water corporations (with minor annual revisions) in developing up their long term water plans.

### ***Rights to be granted to ratepayers to better contribute to council planning and reporting processes***

Ratepayers should be granted a right to targeted and meaningful engagement with their council as outlined above.

### ***Sanctions to be imposed on councils not complying with planning and reporting requirements***

While the VFF support the principles of accountability and transparency within local government actions, our support for sanctions would be conditional on the impost of such a sanction. Sanctions to reprimand a council who is not complying with planning and reporting requirements should only be implement where there is not a financial impact on ratepayers within the community.

## **Chapter 7: Service delivery and financial decision making**

In large part, local governments are utilising the revenue which is generated from their ratepayers. For this reason, members of the VFF take a keen interest in the decisions which local governments make around the use of funds available to them and the services which they choose to provide.

Of importance to the VFF is the rigour applied to the financial decision making of local governments and the transparency in decision making. Community engagement is essential in the lead up to and during the councils budgeting process. With the Victorian Parliament recently passing legislation to support a local government rate cap, the VFF are hopeful that the increased focus on community engagement and feedback required of this process, will place additional scrutiny on the decision making of councils and make them increasingly accountable to their ratepayers.

### ***Collaboration and shared services***

Collaboration and shared service delivery across council borders should be encouraged.

The VFF are aware of some councils who are already looking into areas where collaboration is possible and shared services can be delivered, such as in procurement, billing systems or information technology and communications. The ability for councils to enter into such arrangements should be encouraged, especially in rural and regional areas where there may not be a critical mass for one council to be delivering a project on their own.

Member of the VFF have expressed their concern that they have felt on a number of occasions that their local council develops a “wish list” of the actions and items which they wish to be funding for the coming year, and makes decisions around rates from this standpoint – rather than ascertaining what their income will be for the year and making budget decisions about the pool of funds that is available to them.

## **Chapter 9: Ministerial powers**

### ***Power to make appointments***

It is important that local council are equipped with the flexibility to act on behalf of their constituents. However, as outlined within the discussion paper, there have been occasions where the actions or behaviours of councillors have required the Minister to step in to appointing administrators to particular councils.

The an ongoing power provided to the Minister to make such appointments which ensure that a council can continue to operate should continue to be a feature of the legislation – including commissioners and administrators. The VFF does not have a firm view of the other appointment functions which the Minister holds (boards of inquiry, local government panels), but would welcome streamlining of the structures to improve clarity of responsibilities for various tasks.

### ***Power to issue guidance***

The VFF strongly supports the retention of guideline issuing powers for the Minister within the Local Government Act.

As outlined earlier in this submission, the retention of the farm rate differential is of significant importance to the VFF. If there is no change to the method of calculation of municipal rates – and there is a continuation of a requirement for municipal rates to be paid on farm land – then the presence of an effective differential for farm land is vital.

All too often, the VFF have seen farm rates skyrocket in the absence of a meaningful differential for farm land, that takes into account the variation in services between farm properties and town properties and the overall ability of a farms capacity to pay.

The VFF has been critical of the lack of detail contained within guidelines issued by a Minister in years past – specifically in relation to the application of differential rates to farm land. We support the ability of the Minister to develop strong and clear guidelines, which provide suitable direction to councils in implementing them to achieve an equitable outcome for all ratepayers.

### ***Power to restructure***

At the 2015 VFF Annual conference, changes to local government boundaries were on the list of items to debate. There is concern amongst membership that amalgamations of local government areas which have occurred in the past have resulted in increased rates to rural ratepayers and in many cases poorer service. As such, the VFF opposes further amalgamation of shires in Victoria until it is proven to be of benefit to smaller rural councils (i.e those with less than 20,000 people).

## **Chapter 10: Harmonisation of the Local Government Act**

It is important that it is clear to both local councils as well as ratepayers what the roles and responsibilities of local governments are. While it seems sensible for issue specific legislation to be contained in the respective overarching legislation – for example the road management actions of local government to be contained in the Road Management Act – this approach does not assist in making it clear to ratepayers what the responsibilities of their local government are, as all responsibilities are not clearly articulated in any one location. Conversely, it is apparent that placing all responsibilities into one piece of legislation would be overly cumbersome, resulting in inconsistencies and lack of clarity for ratepayers.

Ultimately, when there is a responsibility placed on local government, the location of this responsibility within legislation is somewhat irrelevant. What is most important for members of the VFF is an assurance that the powers provided to councils are appropriately acknowledged and supported by State and Federal government.

The VFF would be interested for these matters to be further explored in the directions paper to be released in 2016, as the second phase of consultation.

With the focus of the VFF on rural and regional areas, we are not adequately placed to comment on the necessity and appropriateness (or otherwise) of incorporation of the City of Melbourne Act 2001 into a future revised Local Government Act.

**Appendix 1.**



# **Inequities in Rural Rating**

**A Comparison of the Rates on Businesses in Rural  
and Regional Victoria**

MARCH 2015



## Foreword

The Victorian Farmers Federation is Australia's largest state farmer organisation, and the only recognised, consistent voice on issues affecting rural Victoria.

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A handwritten signature in black ink, appearing to read 'PJS', written in a cursive style.

Peter Tuohey

President

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## Executive Summary

As farm businesses have become increasingly aggregated the rating burden faced by individual farmers has been compounded. By using data on farm business numbers from the Australian Bureau of Statistics and information in local council budgets the VFF was able to determine the average rates paid by farm businesses in most councils. We have then compared this to the rates paid by other commercial ratepayers.

In the 2014/2015 financial year farms will, on average throughout councils applying both a farm and commercial differential rate, pay 2.5 times as much in rates as other commercial businesses. This equates to an average of \$4,008 more.

In April 2013 the Ministerial Guidelines for Differential Rating were released with the aim of promoting good practice and greater consistency in the application of differential rating in Victoria. This report provides evidence many councils are still failing to "*ensure the equitable imposition of rates and charges*" as directed by section 3C(2)(f) of the Local Government Act.

Differential rates were introduced as a tool for councils to address equity issues arising from the land valuation method of determining rates. The data compiled in this report suggests that many councils continue to apply inequitable differential rates. This results in an unbalanced rate distribution. Victorian farmers are paying a disproportionate amount of rates in comparison to both the number of agricultural businesses and the economic output of the agricultural industry.

Differential rates were introduced to address equity issues arising from levying municipal rates on the basis of capital improved value. This report demonstrates that the Local Government Act and the Ministerial Guidelines for Differential Rating are failing to ensure the equitable imposition of rates. These instruments need to be reconsidered by the State Government to ensure the effective usage of differential rating on farm land in Victoria. In fact some farm land in Victoria is still classed under a general rate, rated the same as all commercial and residential land.

The VFF firmly believes a differential rate should be applied to all Victorian farm land. In addition differential rates should be determined utilising farm business numbers with consideration given to the economic output of the agricultural industry in the local government area. The following recommendations are intended to ensure the equitable imposition of rates as prescribed by the Local Government Act.

## Recommendations

- 1. The Local Government Act be amended to **require** the application of differential rates on farming land.*
- 2. Local Government be required to collect information on the number of farm businesses and consider this information in the imposition of differential rates.*
- 3. The Local Government Act be amended to require councils to disclose the rates payed per business in addition to per assessment.*
- 4. The Legislative Assembly of Victoria conduct an Inquiry into the fairness and equity of the local government rating system in rural and regional areas to find a more equitable way to apply rates to farmland.*

## Introduction

The Victorian Farmers Federation has long advocated for change to the municipal rating system. The foundation of the rating system in Victoria is the principal that property value is a good measure of capacity to pay. There are fundamental problems with this principle when applied to farm land, including:

- Farming generally utilises a large amount of 'unimproved' land, and as a result municipal rates are a tax on a means of production.
- The value of farm land does not necessarily reflect the income potential of the land - agricultural land is not always valued on the basis of productivity. For example peri-urban land may be valued according to future development potential, while coastal land may be valued for aesthetic reasons rather than productive.

As farm businesses have become increasingly aggregated the rating burden faced by individual farm businesses has been compounded. Council budgets do not generally reflect the true cost of rates imposed on farm businesses. Councils only report on the average farm assessment, but most farm businesses receive more than one rates assessment.

This report delivers analysis of the rate burden faced by farm businesses, and compares this to the commercial rate levied on other businesses in regional and rural Victoria. The data has been compiled through the analysis of Australian Bureau of Statistics data on agricultural businesses<sup>5</sup>, REMPLAN data, and 2014/2015 council budget publications.

Where councils do not levy different rates on commercial land and farm land it is not possible to compare the two ratepayer categories. As a result there are some gaps in the analysis.

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<sup>5</sup> Australian Bureau of Statistics - Agricultural Commodities, Australia, 2010-11.

## **The Current Rating System**

The current rating system employed by local governments in Victoria is resulting in an inequitable distribution of rates. The system, based on land valuations, unfairly places a burden on farming businesses. This system presumes that the higher the land valuation the greater capacity the owner has to pay. VFF analysis shows Victoria's farmers pay over 44 per cent of the business rates in regional Victoria, but the value of farm gate production is only around 5 per cent of regional economic output.

The Local Government Act provides differential rates as a tool local government can utilise to re-balance the rating system. This report demonstrates that local councils are failing to properly utilise differential rates to re-balance the rating system, leaving farming businesses to shoulder an inequitable portion of the rural rate burden.

## **Farm Assessments vs Farm Businesses**

VFF analysis has confirmed that farms often pay more in rates than other commercial businesses. One contributing factor to this is the discrepancy between the number of agricultural businesses and the number of farm assessments per local government area. In recent history Victorian farms have been growing in size, often taking up multiple titles and receiving multiple rate assessment notices (see Table 1). Therefore local government data regarding the average cost of a farm assessment misrepresents the reality of the situation. That is; agricultural businesses pay more than their fair share.

The fact that farmers receive multiple rate notices is already recognised by Victorian councils offering the Single Farm Enterprise Exemption. Despite this awareness councils have invariably failed to use this knowledge to apply equitable differential rates. Further, the Municipal Association of Victoria (MAV) this year acknowledged in its 2014 rates package that a single farm enterprise including several assessments could "*skew the data*" used in their publication.

**Table 1: Number of Agricultural Businesses compared to Farm Assessments by Council Area (Source: ABS, 2014/2015 Council Budgets)**

Shire	Number of Agricultural Businesses <sup>6</sup>	Farm Assessments	Average Assessments Per Business
Alpine Shire Council	370	1,067	2.9
Ararat Rural City Council	471	1,742	3.7
Ballarat City Council	220	772	3.5
Bass Coast Shire Council	421	1,028	2.4
Baw Baw Shire Council	1147	3,061	2.7
Benalla Rural City Council	484	1,306	2.7
Buloke Shire Council	559	2,854	5.1
Campaspe Shire Council	1269	3,729	2.9
Cardinia Shire Council	761	928	1.2
Central Goldfields Shire Council	199	1,011	5.1
City of Whittlesea	84	197	2.3
Colac- Otway Shire Council	692	2,772	4.0
Corangamite Shire Council	1147	2,980	2.6
East Gippsland Shire Council	882	2,738	3.1
Gannawarra Shire Council	585	1,183	2.8
<i>Farm Dryland</i>		443	
Glenelg Shire Council	846	2,943	3.5
Golden Plains Shire Council	465	1,285	2.9
<i>Growth Area</i>		83	
Greater Bendigo City Council	470	1,217	2.6
Greater Geelong City Council	338	1,075	3.2
Greater Shepparton City Council	1058		
Hepburn Shire Council	320	1,052	3.3
Hindmarsh Shire Council	433	2,022	4.7
Horsham Rural City Council	512	2,245	4.4
Hume City Council	99		
Indigo Shire Council	537	1,388	4.1
<i>Category 2</i>		813	0.0
La Trobe City Council	350	1,320	3.8
Loddon Shire Council	744	3,800	5.1
Macedon Ranges Shire Council	487	1,072	2.2
Mansfield Shire Council	278	822	3.0
Mildura Rural City Council	1304	3,466	2.7
Mitchell Shire Council	368	429	3.0

<sup>6</sup> Agricultural business numbers compiled from 'Australian Bureau of Statistics - Agricultural Commodities, Australia, 2010-11'.

<i>Rural Agricultural Land</i>		660	
<b>Shire</b>	<b>Number of Agricultural Businesses</b>	<b>Farm Assessments</b>	<b>Average Assessments Per Business</b>
Moira Shire Council	1072	2,342	2.2
Moorabool Shire Council	412	1,507	3.7
Mornington Peninsula Shire	544	1,176	2.2
Moyne Shire Council	1218		
Mount Alexander Shire Council	244	469	1.9
Murrindindi Shire Council	581	1,316	5.2
<i>Rural 2</i>		1,727	
Nillumbik Shire Council	115	211	1.8
Northern Grampians Shire Council	451	2,311	5.1
Pyrenees Shire Council	732	1,770	2.4
Shire of Yarra Ranges	744	1,912	2.6
South Gippsland Shire Council	1402	3,365	2.4
Southern Grampians Shire Council	878		
Strathbogie Shire Council	669	2,195	3.3
Surf Coast Shire Council	418	944	2.3
Swan Hill Rural City Council	753	1,199	1.6
Towong Shire Council	497	1,529	3.1
Wangaratta Rural City Shire	841	735	3.5
<i>Rural 2</i>		2,213	
Warrnambool City Council	58	159	2.7
Wellington Shire Council	1273	3,720	2.9
West Wimmera Shire Council	558	2,848	5.1
Wodonga City Council	108	294	2.7
Wyndham City Council	137	381	2.8
Yarriambiack Shire Council	564	3,039	5.4



## Farm vs Commercial Rate Inequality

Table 2 demonstrates the significant disparity between rates paid by farm businesses compared to other commercial ratepayers. This is not immediately apparent when looking at the average farm rate assessment. For example, in Benalla based on the average farm rate assessment it appears commercial rate payers will pay \$1,779 more than a farm. However, there are only 484 agricultural businesses compared to 1,306 assessments and therefore farm businesses will actually pay \$1,830 more than other commercial businesses. On average across Victoria, in councils applying both a farm and commercial rate, farming businesses will pay on average 2.5 times more than other commercial rate payers. This equates to \$4,008 more than other commercial businesses.

**Table 2: Comparison of Farm and Commercial Rate Assessments by Council (Source: ABS, 2014/2015 Council Budgets)**

Shire	Average Farm Assessment	Average Commercial Assessment	Average Rates per Farm Business
Alpine Shire Council	\$1,855	\$2,581	\$5,349
Ararat Rural City Council	\$2,852	\$3,197	\$10,548
Ballarat City Council	\$1,974	\$7,666	\$6,927
Bass Coast Shire Council	\$3,437	\$2,378	\$8,393
Baw Baw Shire Council	\$2,971	\$2,679	\$7,929
Benalla Rural City Council	\$2,125	\$3,904	\$5,734
Buloke Shire Council	\$2,313	\$1,302	\$11,809
Campaspe Shire Council	\$1,719	\$2,663	\$5,050
Cardinia Shire Council	\$2,637	\$3,745	\$3,215
Central Goldfields Shire Council	\$1,299	\$3,384	\$6,599
City of Whittlesea	\$5,387		\$12,633
Colac- Otway Shire Council	\$1,929	\$3,033	\$7,726
Corangamite Shire Council	\$2,968		\$7,710
East Gippsland Shire Council	\$1,507	\$1,995	\$4,678
Gannawarra Shire Council	\$1,993	\$1,495	\$3,843
Glenelg Shire Council	\$2,261	\$1,925	\$7,867
Golden Plains Shire Council	\$2,360	\$1,112	\$6,598
Greater Bendigo City Council	\$1,880	\$4,994	\$4,869
Greater Geelong City Council	\$2,362	\$4,080	\$7,512
Greater Shepparton City Council	Data Unavailable		
Hepburn Shire Council	\$1,515	\$2,650	\$4,981
Hindmarsh Shire Council	\$2,021	\$735	\$9,435
Horsham Rural City Council	\$2,107		\$9,237
Hume City Council	Data Unavailable		
Indigo Shire Council	\$1,356	\$1,940	\$3,864
La Trobe City Council	\$2,231		\$8,412

<b>Shire</b>	<b>Average Farm Assessment</b>	<b>Average Commercial Assessment</b>	<b>Average Rates per Farm Business</b>
Loddon Shire Council	\$1,310		\$6,690
Macedon Ranges Shire Council	\$1,918	\$1,770	\$4,223
Mansfield Shire Council	\$1,732	\$1,842	\$5,120
Mildura Rural City Council	\$2,175	\$4,760	\$5,781
Mitchell Shire Council	\$2,167		\$3,605
Moira Shire Council	\$1,875	\$1,807	\$4,096
Moorabool Shire Council	\$2,070	\$2,996	\$7,572
Mornington Peninsula Shire	\$1,596		\$3,450
Moyne Shire Council	Data Unavailable		
Mount Alexander Shire Council	\$1,903	\$2,995	\$3,657
Murrindindi Shire Council	\$1,826	\$1,193	\$5,189
Nillumbik Shire Council	\$3,147	\$2,428	\$5,774
Northern Grampians Shire Council	\$1,636	\$2,072	\$8,381
Pyrenees Shire Council	\$2,007	\$1,163	\$7,464
Shire of Yarra Ranges	\$2,615	\$3,507	\$6,720
South Gippsland Shire Council	\$2,746	\$1,740	\$6,590
Southern Grampians Shire Council	Data Unavailable		
Strathbogie Shire Council	\$2,636	\$2,132	\$8,648
Surf Coast Shire Council	\$1,837	\$2,964	\$4,149
Swan Hill Rural City Council	\$2,636	\$3,345	\$4,198
Towong Shire Council	\$1,878	\$542	\$5,777
Wangaratta Rural City Shire	\$1,681	\$3,116	\$3,430
Warrnambool City Council	\$2,283	\$4,408	\$6,259
Wellington Shire Council	\$2,412		\$7,048
West Wimmera Shire Council	\$1,779	\$294	\$9,080
Wodonga City Council	\$2,989	\$4,874	\$8,136
Wyndham City Council	\$3,861	\$4,855	\$10,738
Yarriambiack Shire Council	\$2,276	\$787	\$12,265
<b>Rural Council Average</b>	<b>\$2,197</b>	<b>\$2,692</b>	<b>\$6,699</b>

## Operation of Differential Rates

Table 3 demonstrates the operation of differentials and the impact they have on the rate burden distribution. This table shows that some regional councils such as Bendigo, Mildura and Swan Hill have effectively used differential rates to equitably distribute the rate burden. Councils that have failed to do this include Bass Coast, Benella, Glenelg, and West Wimmera. It should also be noted that councils such as West Wimmera and Yarriambiack face greater restrictions in their ability to re-balance the rate burden due to a heavy reliance on farm rates due to a small number of commercial businesses (see Table 4 below).

**Table 3: Farm vs Commercial rates comparison including differentials (Source: ABS, 2014/2015 Council Budgets)**

Shire	Commercial Differential	Farm Differential	Average Commercial Assessment	Average Rates per Farm Business
Alpine Shire Council	143%	71%	\$2,581	\$5,349
Ararat Rural City Council	162%	60%	\$3,197	\$10,548
Ballarat City Council	252%	70%	\$7,666	\$6,927
Bass Coast Shire Council	100%	100%	\$2,378	\$8,393
Baw Baw Shire Council	130%	90%	\$2,679	\$7,929
Benalla Rural City Council	135%	75%	\$3,904	\$5,734
Buloke Shire Council	100%	98%	\$1,302	\$11,809
Campaspe Shire Council	116%	90%	\$2,663	\$5,050
Cardinia Shire Council	145%	75%	\$3,745	\$3,215
Central Goldfields Shire Council	160%	80%	\$3,384	\$6,599
City of Whittlesea	100%	85%		\$12,633
Colac- Otway Shire Council	165%	79%	\$3,033	\$7,726
Corangamite Shire Council	100%	94%		\$7,710
East Gippsland Shire Council	145%	90%	\$1,995	\$4,678
Gannawarra Shire Council	107%	99%	\$1,495	\$3,843
<i>Farm Dryland</i>		79%		
Glenelg Shire Council	120%	100%	\$1,925	\$7,867
Golden Plains Shire Council	100%	90%	\$1,112	\$6,598
<i>Growth Area</i>	100%	91%		
Greater Bendigo City Council	100%	85%	\$4,994	\$4,869
Greater Geelong City Council	209%	100%	\$4,080	\$7,512
Greater Shepparton City Council				
Hepburn Shire Council	116%	68%	\$2,650	\$4,981
Hindmarsh Shire Council	90%	90%	\$735	\$9,435
Horsham Rural City Council	100%	80%		\$9,237
Hume City Council	100%	100%		

Shire	Commercial Differential	Farm Differential	Average Commercial Assessment	Average Rates per Farm Business
Indigo Shire Council	135%	75%	\$1,940	\$3,864
<i>Category 2</i>		75%		
La Trobe City Council	100%	75%		\$8,412
Loddon Shire Council	100%	89%		\$6,690
Macedon Ranges Shire Council	120%	80%	\$1,770	\$4,223
Mansfield Shire Council	143%	71%	\$1,842	\$5,120
Mildura Rural City Council	120%	95%	\$4,760	\$5,781
Mitchell Shire Council	100%	80%		\$3,605
<i>Rural Agricultural Land 40ha-100ha</i>		90%		
Moira Shire Council	140%	100%	\$1,807	\$4,096
Moorabool Shire Council	160%	78%	\$2,996	\$7,572
Mornington Peninsula Shire	100%	37%		\$3,450
Moyne Shire Council	100%	100%		
Mount Alexander Shire Council	130%	100%	\$2,995	\$3,657
Murrindindi Shire Council	100%	75%	\$1,193	\$5,189
<i>Rural 2</i>		100%		
Nillumbik Shire Council	116%	85%	\$2,428	\$5,774
Northern Grampians Shire Council	100%	65%	\$2,072	\$8,381
Pyrenees Shire Council	100%	81%	\$1,163	\$7,464
Shire of Yarra Ranges	150%	70%	\$3,507	\$6,720
South Gippsland Shire Council	103%	80%	\$1,740	\$6,590
Southern Grampians Shire Council	100%	80%		
Strathbogie Shire Council	120%	85%	\$2,132	\$8,648
Surf Coast Shire Council	190%	75%	\$2,964	\$4,149
Swan Hill Rural City Council	130%	90%	\$3,345	\$4,198
Towong Shire Council	95%	90%	\$542	\$5,777
Wangaratta Rural City Shire	135%	74%	\$3,116	\$3,430
<i>Rural 2</i>		70%		
Warrnambool City Council	168%	56%	\$4,408	\$6,259
Wellington Shire Council	100%	80%		\$7,048
West Wimmera Shire Council	100%	100%	\$294	\$9,080
Wodonga City Council	140%	75%	\$4,874	\$8,136
Wyndham City Council	150%	80%	\$4,855	\$10,738
Yarriambiack Shire Council	100%	77%	\$787	\$12,265
<b>Rural Council Average</b>	<b>124%</b>	<b>82%</b>	<b>\$2,692</b>	<b>\$6,699</b>

## Reliance on Farm Businesses for Rate Revenue

Table 4 demonstrates the reliance of councils on rate revenue from farms, both as a proportion of commercial rate revenue and as a proportion of total rate revenue. In addition the table includes the difference between the average rates paid by farm businesses in each shire to the average commercial assessment.

The inequity between farming and other commercial businesses is predominant in councils reliant on farm rates for greater than 10% of their rates revenue. There are several notable exceptions to this – where farm businesses provide less than 10 per cent of rate revenue, but still face significant inequity. These councils include Bass Coast, Greater Geelong, Nillumbik, Yarra Ranges, Wodonga, and Wyndham.

However, in general those councils with a high reliance on farm rates tend to have a greater discrepancy between the rates paid by farms compared to other commercial ratepayers. Appendix 1 demonstrates this pattern geographically.

**Table 4: Different between average farm business rates and average commercial assessment compared to the proportion rate revenue from farm rates**

Shire	Proportion of Commercial Rate Revenue	Proportion of Total Council Rate Revenue	Difference – Ave Farm Business vs Average Commercial Assessment
Alpine Shire Council	49%	16%	\$2,768
Ararat Rural City Council	80%	41%	\$7,351
Ballarat City Council	6%	2%	-\$739
Bass Coast Shire Council	59%	9%	\$6,016
Baw Baw Shire Council	71%	23%	\$5,250
Benalla Rural City Council	61%	25%	\$1,830
Buloke Shire Council	92%	69%	\$10,507
Campaspe Shire Council	60%	23%	\$2,387
Cardinia Shire Council	35%	4%	-\$530
Central Goldfields Shire Council	57%	16%	\$3,215
City of Whittlesea		1%	
Colac- Otway Shire Council	74%	25%	\$4,692
Corangamite Shire Council		56%	
East Gippsland Shire Council	51%	12%	\$2,683
Gannawarra Shire Council	75%	26%	\$2,347
Glenelg Shire Council	77%	37%	\$5,942
Golden Plains Shire Council	99%	17%	\$5,486
<i>Growth Area</i>	46%		
Greater Bendigo City Council	12%	3%	-\$125

Shire	Proportion of Commercial Rate Revenue	Proportion of Total Council Rate Revenue	Difference – Ave Farm Business vs Average Commercial Assessment
Greater Geelong City Council	8%	1%	\$3,432
Greater Shepparton City Council	Data Unavailable		
Hepburn Shire Council	44%	11%	\$2,331
Hindmarsh Shire Council	94%	70%	\$8,701
Horsham Rural City Council		28%	
Hume City Council	Data Unavailable		
Indigo Shire Council	75%	23%	\$1,923
La Trobe City Council		7%	
Loddon Shire Council		70%	
Macedon Ranges Shire Council	53%	7%	\$2,453
Mansfield Shire Council	71%	20%	\$3,278
Mildura Rural City Council	45%	16%	\$1,020
Mitchell Shire Council		6%	
Moira Shire Council	62%	22%	\$2,290
Moorabool Shire Council	67%	13%	\$4,576
Mornington Peninsula Shire		2%	
Moyne Shire Council	Data Unavailable		
Mount Alexander Shire Council	41%	6%	\$662
Murrindindi Shire Council	84%	26%	\$3,996
Nillumbik Shire Council	22%	1%	\$3,346
Northern Grampians Shire Council	76%	32%	\$6,310
Pyrenees Shire Council	95%	51%	\$6,301
Shire of Yarra Ranges	30%	5%	\$3,213
South Gippsland Shire Council	83%	31%	\$4,850
Southern Grampians Shire Council	Data Unavailable		
Strathbogie Shire Council	91%	46%	\$6,516
Surf Coast Shire Council	39%	5%	\$1,185
Swan Hill Rural City Council	66%	15%	\$853
Towong Shire Council	96%	58%	\$5,236
Wangaratta Rural City Shire	47%	13%	\$314
Warrnambool City Council	6%	2%	\$1,850
Wellington Shire Council		20%	
West Wimmera Shire Council	99%	90%	\$8,786
Wodonga City Council	12%	3%	\$3,262
Wyndham City Council	5%	1%	\$5,884
Yarriambiack Shire Council	95%	74%	\$11,478
<b>Rural Council State Average</b>	<b>49%</b>	<b>24%</b>	<b>\$4,008</b>

## Local Government Area Economic Output

Economic output figures from the ABS further demonstrates the failure of the land valuation method to equitably distribute the rate burden. It also demonstrates the need for councils to take into account additional factors and statistics in determining differential rates.

The high value of farming land in comparison the economic output from the land means that farmers are paying a disproportionate amount of rates. Farmers are being taxed up to 4 cents per dollar of output for council rates. Table 4 illustrates the discrepancy between agricultural businesses and other commercial businesses in dollars of economic output per dollar of rates paid. This further demonstrates the inappropriateness of capital improved value of agricultural land as a measure of capacity to pay.

**Table 5: ABS Economic Output Figures per \$ of rates paid (Source: REMPLAN, ABS, 2014/2015 Council Budgets)**

Shire	Agricultural Output	Other Commercial Output	Agricultural Output per \$ of rates	Other Commercial Output per \$ of Rates
Ararat	\$132,000,000	\$1,047,524,000	\$27	\$839
Indigo	\$106,632,000	\$1,522,826,000	\$51	\$2,162
South Gippsland	\$360,858,000	\$2,308,783,000	\$39	\$1,182
Moorabool	\$131,541,000	\$1,310,871,000	\$42	\$854

## Ministerial Guidelines for Differential Rating

The Ministerial Guidelines released in 2013 stated the Minister for Local Government would use their statutory powers to prohibit a differential rate if it was considered to be inconsistent with the guidelines. The guidelines also suggested the Minister would have close regard to the proposed differential rates of Councils in the 28 day draft budget consultation period.

The data in Table 2 suggests the Local Government Act has not been appropriately followed. The imposition of inequitable rates in many cases suggests the Minister has failed to implement the differential rating guidelines. Further action is required to ensure that differential rates are implemented effectively and councils are held accountable for their operation.

## Reforms

The Ministerial Guidelines recognise that differential rates are a tool for councils to use to address equity issues resulting from the property valuation method. Government recognises the fact that the land valuation method unfairly prejudices farmers. Some councils have effectively utilised differential rates, fairly distributing the rate burden. Many councils, particularly those with a high number of farmers, do not use differential rates to an effective end. Differential rates are not a tool to reduce inequity they are a tool to address inequity.

The VFF is aware of the financial stress many rural and regional local governments are currently experiencing. The proposed reforms will in no way increase this financial stress. The aim of these reforms is to encourage councils to effectively utilise differential rates to re-balance the rate burden. In order to do this local government needs to consider more information in determining differential rates.

Agricultural business numbers should be collected and utilised by council. Many councils already have a mechanism to gather this information through the operation of the Single Farm Enterprise Exemption. In addition councils should consider the economic output of farming and commercial industries. Differential rates were introduced to address the discrepancy between land valuations and actual output, therefore it would be logical to use both figures to determine the differential.

## Recommendations

- 1. The Local Government Act be amended to **require** the application of differential rates on farming land.*
- 2. Local Government be required to collect information on the number of farm businesses and consider this information in the imposition of differential rates.*
- 3. The Local Government Act be amended to require council to disclose the rates payed per business in addition to per assessment.*
- 4. The Legislative Assembly of Victoria conduct an Inquiry into the fairness and equity of the local government rating system in rural and regional areas to find a more equitable way to apply rates to farmland.*



# Appendix1: Map of Average Commercial Assessment vs Farm Business Rates in Victoria

