



FEDERATED FARMERS

SUBMISSION ON:
OTAGO REGIONAL COUNCIL
DRAFT ANNUAL PLAN 2010/11

SUBMISSION

TELEPHONE 0800 327 646 | **WEBSITE** WWW.FEDFARM.ORG.NZ

TO: Otago Regional Council
Private Bag 1954
Dunedin 9054

SUBMISSION ON: Draft Annual Plan 2010/11

FROM: Federated Farmers of New Zealand

DATE: 3 May 2010

CONTACT: David Cooper
Policy Advisor

Federated Farmers of New Zealand
PO Box 5242
Dunedin 9058

P 03 477 7361
F 03 479 0470
E dcooper@fedfarm.org.nz

Federated Farmers of New Zealand wishes to be heard in support of this submission.

1. KEY RECOMMENDATIONS FOR ADOPTION

- Council proceed with the decision to keep the general rates take for 2010/11 the same as that for 2009/10, but show regard for the subsequent increase in borrowings
- Increase the UAGC up to the maximum 30% allowed under current legislation, by using the UAGC to fund those activities where Council have assessed the benefit of the activity to accrue to all of the region's ratepayers
- Federated Farmers recommends that the council continues to advocate to central government for meaningful reform of local government funding
- Support Council's contribution to TbFree NZ and encourage ORC to continue funding support for the programme to the end date of the current NPMS and into the next strategy
- Submit that the current level of funding provided to the Otago Ballance Farm Environment Awards should continue
- Council postpone the proposed upgrade of flood pumps on the West Taieri Drainage Scheme until such time as the signaled reclassification of the rating system, cost benefit analysis of options, and community consultation process can be undertaken
- Council undertake reclassification of the land use covered by the Lower Taieri Flood Protection scheme and introduce a new classification system prior to funding any further significant capital works, in time for adoption in the 2011/12 Annual Plan
- Council investigate funding a portion of the capital expenditure for the Taieri Flood Protection and Drainage schemes by increasing the UAGC
- Council implement a series of regular public consultation meetings to inform affected ratepayers within the Lower Taieri Flood Protection scheme and the Taieri Drainage schemes
- Support for ORC's intent to *"Provide technical and funding support for community led investigations of infrastructure requirements for bulk rural water."*

2. THE BOTTOM LINE

2.1 Federated Farmers supports the intent of Council's decision to keep the general rates take for 2010/11 at the same level as the 2009/10 year. At a time when other councils continue to increase their rates take, ORC's decision to control rates increases is a fine example of matching the rates take to suit the economic conditions. However, we note that debt is increasing substantially and submit that Council control rates increases through reduced expenditure and continuing to look for better efficiencies rather than deferring costs for future ratepayers.

2.2 Nationally, the cumulative effect of rates increases are an issue. The Department of Internal Affairs stated that the average rates increase for 2009/10 was around 6%, on average, nationally. For farmers this is especially concerning. Rates are based predominantly on property value, meaning the farmer's main asset dictates how much they will be paying in rates. As a result rates are often in the top five costs of a farmer's annual operating expenses. A 5% increase in rates is an encroachment on the standard of living for every ratepayer, however when you're a farmer this can mean an additional rates bill of hundreds of dollars. When a 5% rates increase is implemented off the back of a number of comparative rates increases the cumulative effects are alarming.

2.3 While the Federation does not question the important role that regulation has to play in the ongoing and sustained strength of the New Zealand economy, there is a trade-off to be made between footing the bill for increased regulation and leaving that money with the sectors that enable economic growth or to develop innovation-aimed environmental management. When local government insist that they absolutely must take more money off the small portion of profit that sits within the farm gate, this creates a serious level of cynicism which hampers relations between farmers and their councils.

2.4 However, the Federation notes that total liabilities are increasing to just under \$33 million in 2010/11, from a base of just under \$16 million in 2009/10. Most of this is explained by the tremendous leap in borrowings for 2010/11, from \$10 million last year to over \$26 million this year. While we note that the reduced dividend for this year compared to that forecast in the 2009/19 LTCCP is a contributing factor, a cap on rates increases at the expense of increasing debt is a false economy. A Department of Internal Affairs assessment of the increase in the level of total public debt held by councils forecast an increase 98% from 2009 levels to \$10.8 Billion in 2019. While Federated Farmers supports the intent of keeping the general rates the same in 2010/11 this should come from a reduction in expenditure and increased efficiencies, not simply a deferral of costs for that ratepayers will be asked to cover in later years.

RECOMMENDATIONS:

Council proceed with the decision to keep the general rates take for 2010/11 the same as that for 2009/10

Council take care not to increase debt to achieve capped rates increases, instead doing so by reducing expenditure and continuing to look for increased efficiencies.

3. GREATER USE OF UNIFORM ANNUAL CHARGES

- 3.1 The Local Government (Rating) Act 2002 requires councils to raise no more than 30% of their rates revenue by way of uniform charges. Federated Farmers strongly encourage councils to make maximum use of uniform charges, especially for “per person” services where the council activity can be expected to be of equal benefit to individuals or where there is no correlation between property value and benefit received (or contribution to the need for the expenditure), with the “per property” nature of a uniform charge best approximating this “per person” benefit.
- 3.2 The ORC rates accountable under the 30% cap (that is, excluding water and sewerage charges, and any charges differentiated by land use or area) is the UAGC (\$1.1 million). The total forecast rates take for 2010/11 includes the UAGC (\$1.1 million), the General rate (\$3.4 million) and the broad range of Targeted rates (\$11.8 million). At a combined \$16.3 million, this indicates ORC’s total allowable usage of the UAGC would be \$4.89 million. At \$1.1 million, ORC is taking just under 7% of total rates using a UAGC.
- 3.3 Council could increase the total UAGC around \$3.7 million (by approximately \$42 per rateable unit) and still remain under the 30% legislative cap on uniform charges. There is significant scope for Council to make wider use of the UAGC rate in order to create a more equitable, broader based rate that is less punishing on high capital value ratepayers.
- 3.4 There are a number of expenditure categories that Council consider that the wider community benefits from that are currently funded from the General rate. If the benefit is to each ratepayer, equally, we recommend Council make greater use of the UAGC to fund part or all of these areas of expenditure, including Public Awareness & Information, Environmental Enhancements, Democratic Process, and Water Resource monitoring.
- 3.5 Where Council is concerned that the effects of increasing the UAGC would be regressive and impact upon lower capital value properties, Federated Farmers reiterates that even increasing the UAGC to the maximum allowed under legislation would cost the ratepayer \$42 (in 2010/11, increasing the UAGC to around \$61), for which they would also see a reduction in the General rate portion of their rates.

RECOMMENDATIONS:

That Council make substantially broader use of the UAGC, up to the 30% maximum allowed under current legislation.

Council fund those areas of expenditure from the UAGC where all ratepayers can be assessed to receive equal benefit.

4. REFORM OF LOCAL GOVERNMENT FUNDING

- 4.1 The primary concern for Federated Farmers is that modern local government is broadly empowered in terms of its roles and responsibilities yet is restricted to a narrow, archaic funding base made up of property value rates and property charges. Property value rates bear no direct relationship to either 'ability to pay' or use of a service, and are simply a blunt approximation of a progressive taxation system. The uneven distribution of the rates burden therefore prevents Otago ratepayers from truly assessing the costs and benefits of council activities. For farmers this means a heavy tax on their key asset (land) to pay for all manner of community services many of which they rarely if ever use. This in turn leads to farmers becoming increasingly frustrated with their councils, who year upon year ask for additional rates with no corresponding increase in the level of service they receive.
- 4.2 The Federation submits that rating policy is vital to the achievement of community outcomes and the community's ability to assess the value of council activities and ensure that councils are focused on their needs. Therefore at a local level Federated Farmers is a consistent submitter to council draft annual and long term plans. In recent years we have consistently submitted to over 65 of the 85 councils as well as providing support to individual members making their own submissions. The Federation's local efforts are focused on improving council rating systems and reducing the rates burden on farms.
- 4.3 This local experience has given Federated Farmers a unique perspective on local government funding issues which was invaluable to our interaction with the 2007 Independent Inquiry into Local Government Rates (the 'Rates Inquiry').
- 4.4 Federated Farmers wants meaningful progress in the funding of local government and it is keen to work with local government in putting the case for reform. The Federation has proposed the following changes to reform local government funding to substantially reduce the reliance on property value rates:
1. Councils to make greater use of user charges for private good activities.
 2. Councils to make greater use of uniform annual charges, and Government to abolish the 30% cap and consider whether councils should be able to charge a residents' tax.
 3. Councils to make greater use of targeted rates, and Government to provide more guidance on their use.
 4. Government to increase the financial assistance rate for the funding of local roads.
 5. Government to abolish rating exemptions on Crown land.
 6. Government to provide greater guidance on appropriate roles and responsibilities for local government and provide funding to councils where it is imposing new or additional roles and responsibilities.
 7. Government to provide a general revenue share (e.g., 1% of GST) and councils to reduce their general rates accordingly.
 8. Government to streamline requirements for planning and decision-making.
 9. Councils to report information consistently for performance benchmarking.
 10. Councils to provide ratepayers with itemised rates assessments – where the cost of every significant activity is detailed on the rates bill. Congratulations to those councils that already do this.
 11. Government to establish a rates review office.

4.5 These eleven ideas would in our view improve local government by providing it with more sustainable income sources from a broader base. These reforms would increase the visibility of the cost of local government—widening the interest in what councils do and thereby enhancing local governance.

RECOMMENDATION:

Federated Farmers recommends that the council continues to advocate to central government for meaningful reform of local government funding.

5. FUNDING TBFREE NEW ZEALAND

5.1 Federated Farmers reiterates support for Council's decision to continue to "provide funding assistance of up to \$320,000 to the Animal Health Board to manage the implementation of the National Pest Management Strategy for Bovine Tb in Otago". As Council will be aware the continuation of this funding ensures that other funding partners, including the Crown, continue to contribute their historical portions of the total regional share.

5.2 Impressive progress has been made by the AHB and the RAHC in Otago, but the cost of losing this progress is high. Federated Farmers recommends that council continue to

provide a relatively similar level of support and funding to the end of the current National Pest Management Strategy (NPMS) and into the successive NPMS.

RECOMMENDATIONS:

Federated Farmers supports Councils contribution to TbFree NZ .

Council continue to support the programme to the end date of the current NPMS and into the next strategy.

6. SPONSORSHIP - OTAGO BALLANCE FARM ENVIRONMENT AWARDS

6.1 Federated Farmers encourages Council to continue its financial support for the Otago Ballance Farm Environment Awards. This is an outstanding way of promoting sustainable farm management in Otago. It is a cheap investment in extension, in that the awards seek to encourage and support farm (agriculture, horticulture, viticulture and poultry) enterprises in achieving best practice in all aspects of farm resource management. It is also a collective opportunity for resource management professionals to meet with farmers in a non threatening environment and

to challenge the thinking of entrants. Further the collective learning process that takes place with all of the entrants, fostered by the judging process, provides a direct opportunity to have one on one extension, not normally provided in a context without a “reason” for being on the property.

RECOMMENDATION:

The current level of funding provided to the Otago Ballance Farm Environment Awards should continue.

7. WEST TAIERI DRAINAGE, EAST TAIERI DRAINAGE, LOWER TAIERI FLOOD PROTECTION SCHEMES

- 7.1 Farmers on the Taieri place tremendous importance in the West and East Taieri Drainage and Lower Taieri Flood Protection schemes (“the schemes”). The continuity of their livelihoods and the safety of their families, homes and stock are reliant on the success of these schemes. There is also considerable experience of previous flooding on the Taieri, and little risk that the Taieri farming community have forgotten the number of previous floods that have occurred or the damage flooding can cause. With this in mind, Federated Farmers reiterates the concerns expressed by the Taieri farming community that some of the proposed capital expenditure intended for the schemes are the gold plated option when something less would suffice.
- 7.2 Motivating these concerns is the issue of affordability. While Council’s proposed capital expenditure may seem completely warranted from a regional level, those who are paying the majority of the bill are unhappy with the amount they will be asked to contribute. Taieri farmers are concerned that they will be asked to foot the large majority of the bill for which the whole Taieri community will benefit, and will also be contributing their own money where the benefit is best attributed to the wider Otago region.
- 7.3 **West Taieri Drainage Scheme** – Farmers are concerned about the proposed capital expenditure and upgrades and who will be funding these upgrades. Members feel that Council has essentially put the cart before the horse by continuing with the proposals to proceed with upgrades without undertaking a robust assessment of who will be benefiting, and therefore who should pay for the expenditure.
- 7.4 Our members support the replacement of the D2 pump and agree that this will enhance the operation of the scheme but consider that the proposed replacement of the flood pumps need to be deferred in order for a robust assessment of options and cost benefit of these options to be undertaken.
- 7.5 If Council is undertaking the work as a measure of flood protection to protect high capital value properties primarily used for rural residential services then this should be reflected by a dramatic change to the classification and funding of the scheme, and this change to the classification should be implemented before the proposed capital expenditure proceed.
- 7.6 The growth of capital intensive lifestyle blocks and rural residential subdivision within the scheme means that a flat per hectare rate is certainly not appropriate to fund significant capital upgrades.

RECOMMENDATIONS:

Council postpone the proposed upgrade of flood pumps on the West Taieri Drainage Scheme until such time as the signaled reclassification of the rating system, cost benefit analysis of options, and community consultation process can be undertaken.

- 7.7 **Lower Taieri Flood Protection Scheme** – Taieri farmers are concerned that the current rating classification system is inequitable, with the amount ratepayers are contributing in no way reflecting the benefit they receive from the flood protection scheme. Therefore capital expenditure for the flood protection scheme should be put on hold until a cost benefit analysis has been undertaken, the rating classification revised to reflect the benefit each and every ratepayer receives, and the funding of the capital expenditure from rates aligned with the relative benefit that each ratepayer will receive. There has been significant change in land use since the classification was implemented, and lifestyle blocks and rural residential subdivisions are significant beneficiaries of the flood protection work. However, this benefit is not reflected in the amount that each property contributes to the scheme in rates.
- 7.8 Federated Farmers submits that the most accurate assessment of the level of benefit received from the flood protection scheme is a property’s capital value, in combination with the amount or likelihood of flooding the property would face were there no flood protection

scheme. A combination of a LiDAR assessment of the risk each area or property faces, and a rating differentiation based on the property's capital value, would be two factors Council could consider in this reclassification. Regard would also ideally be given to the increased incidence of housing development and residential land use within the Flood Protection scheme.

- 7.9 Presently, in each of the classification areas there are a number of rating units. If each of the rating units had an equal capital value the distribution would be as follows:

A	159	\$248 000	\$1559/ rating unit
B	177	\$135 000	\$762/rating unit
C	287	\$54 000	\$188/rating unit
D	74	\$27 000	\$364/rating unit
E	571	\$27 000	\$47/rating unit
F	4,843	\$49 000	\$10/rating unit

- 7.10 While this is a basic and blunt comparison and of no use for funding purposes, it does highlight the point Taieri farmers are trying to make. There are a large number of rating units within both the E and F categories and the relative capital value of some of these properties, in combination with the protection afforded to them by the scheme and any upgrades is likely to be significant.

RECOMMENDATIONS:

Council proceed with the proposal to undertake reclassification of the land use covered by the scheme and introduce a new classification system prior to funding any further significant capital works.

That this process be undertaken in conjunction with affected community in time for the 2011/12 draft Annual Plan.

- 7.11 **Broader Community benefit** - The Federation supports the principles of recovering costs from those who benefit, and therefore the intent, if not the structure, of the rating classifications used for funding the schemes. However, there is a portion of benefit to the wider community from the flood protection and drainage schemes which can be attributed to the broader community, in that the community

receives benefit from access to the region when there is no flooding (for instance, cyclists, drivers and walkers using the Taieri). Federated Farmers also advocate for rates that are broad based and low rate. Council appears to have reflected this wider community benefit in the method used to fund the Leith Lindsay Flood Protection scheme.

- 7.12 To that end the Federation asks Council to consider increasing the region wide UAGC and apportioning funding to the costs of the proposed capital expenditure to reflect the wider community benefit. This would reduce the tremendous impact of the scheme upgrades on the Taieri community for a minimal cost to each ratepayer in the wider region. For example, the UAGC would only have to increase by \$1.31 per ratepayer to account for the total East and West Taieri Drainage Scheme capital works of \$115,000 forecast in the draft Annual Plan 2010/11. While it would not be equitable to fund all capital expenditure in this manner, it does highlight the benefit of greater use of the UAGC for capital upgrades to reflect wider community benefit.

RECOMMENDATION:

Council investigate funding a portion of the capital expenditure for the Taieri Flood Protection and Drainage schemes by increasing the UAGC.

Council implement a series of regular public consultation meetings to inform affected ratepayers and enable robust feedback.

Federated Farmers supports other submissions to the draft Annual Plan 2010/11 by members of the Community Consultation Committee established after the two meetings in early 2010. We appreciate the willingness of Council staff and Councillors to openly engage with both the organisation and the affected ratepayers.

8 WATER QUALITY STRATEGY - IMPLEMENTATION

8.1 It is positive to note in the draft Annual Plan that one of the Key Performance Targets under the implementation strategy is that Council “provide technical and funding support for community led investigations of infrastructure requirements for bulk rural water”¹. Federated Farmers supports the role Council has to play in enabling community responses to water allocation concerns within a catchment or community and believes that a bottom up approach to identifying solutions to the problems of bulk rural water allocation is the most efficient means of empowering water allocation solutions with maximum community buy-in.

Federated Farmers supports Council’s intent to provide technical and funding support for community led investigations of infrastructure requirements for bulk rural water

¹ Otago Regional Council draft Annual Plan 2010/11, page 56

9. IMPORTANCE OF AGRICULTURE TO THE ECONOMY

- 9.1 Agricultural and horticultural commodities make a massive contribution to the national economy, accounting for well over \$20 billion per annum and over half of our goods exports. MAF's report Situation and Outlook for New Zealand Agriculture and Forestry (SONZAF) states that for the year to June 2009, particularly large contributions were made by dairy (\$11,323 million, up 8% on 2008), lamb (\$2,523 million, up 21%), and beef (\$1,969 million, up 26%).
- 9.2 SONZAF reveals that the wider agricultural sector generated \$23,148 million in gross revenue for the year ended March 2009. Much of this gross revenue would have been spent in cities and towns, with consumption of farm inputs of \$12,598 million. A further \$2,663 million was paid to employees as wages and salaries and \$4,385 million paid out as interest on loans.
- 9.3 According to Statistics New Zealand's Business Demography Statistics, as at February 2009 approximately 79,900 people were directly employed in agriculture (4.2% of all employees). Of this total, around 20,500 were employed on grain, sheep and beef cattle farms and 23,700 on dairy farms.
- 9.4 Agriculture sector productivity growth and economic growth have both outpaced that in the New Zealand economy as a whole. Over the past decade, agricultural sector multi-factor productivity has grown at a rate of 1.8% per year, double the rate for the economy as a whole. This is important because in the longer term productivity is what determines economic growth and competitiveness internationally.
- 9.5 However, despite farming's huge contribution to the economy and boasting a superior productivity performance, farmers increasingly feel that they are not receiving adequate reward for their efforts. Over recent years there has been an insidious margin squeeze with farmers caught between remorselessly high inflation for their farm inputs and incomes that are at the mercy of fluctuations in commodity prices and the exchange rate.
- 9.6 For the year ended March 2009, net agricultural income before tax was \$1,442 million, around \$23,000 per farm. This is just 6.2% of gross revenue, down from 16.5% in 2007/08 (the year of Fonterra's super-payout) and 7.4% in 2006/07. Although a slight recovery (to 8.4%) is forecast for 2009/10, this sliver is all that's left over to pay income tax, to repay debt, to invest in the business, and to feed the family. This helps to explain why farmers have had to increasingly resort to borrowings, with agricultural debt doubling over the past five years.
- 9.7 If agriculture is to grow and lead the country to greater things then somehow we need to get that percentage up on a more sustained basis. Farmers cannot afford for this squeeze to continue which is why we take such a close interest in local government issues.

10. ABOUT THE FEDERATION

- 10.1 Federated Farmers welcomes the opportunity to comment on the Otago Regional Council's 2010/11 draft Annual Plan.
- 10.2 Federated Farmers of New Zealand is a voluntary, member-based organisation that represents farming and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand farmers.
- 10.3 The Federation aims to add value to its members' farming businesses. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:
- Our members may operate their business in a fair and flexible commercial environment;
 - Our members' families and their staff have access to services essential to the needs of the rural community; and
 - Our members adopt responsible management and environmental practices.