



FEDERATED FARMERS

SUBMISSION ON:

Waikato District Council Draft Annual Plan 2010/11

SUBMISSION

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SUBMISSION ON: Draft Annual Plan 2010/11

FROM: Waikato Federated Farmers

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

1. INTRODUCTION

Waikato Federated Farmers appreciates this opportunity to submit on the draft Annual Plan 2010/11. We acknowledge any other submissions from individual members of Federated Farmers

Federated Farmers is focused on the transparency of rate setting, and the overall cost of local government to agriculture. We submit to the annual plans and LTCCPS through out New Zealand. Federated Farmers is concerned that councils are not containing spending and avoiding rate increases as much as they could, as farming, along with many other sectors of the local economy, is facing uncertain, and substantially reduced, incomes in the immediate coming years.

MAF's report Situation and Outlook for New Zealand Agriculture and Forestry states that for the year ended March 2009, net agricultural income in New Zealand 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 of income is all that's left over to pay tax, to repay debt, to pay the bills, 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.

2. TRANSPARENCY

The level of transparency in the draft Annual Plan could be improved. Federated Farmers submitted on this point last year to the LTCCP. Although information on Council activities and Council expenditure estimates are provided, there is very little information on how this will affect individual property owners' rates bills, or the funding sources.

Benchmark rating examples would be beneficial for reader understanding. Waikato Federated Farmers encourages the District Council to provide a table of rates on example properties in the district. This would be a useful addition to the transparency of the Funding Impact statement and would assist the reader in better understanding how Council allocates its costs and the impact on particular properties. Last year the Federation were told that the diverse range of rates that apply to different areas would make providing examples difficult. However a number of other councils provide benchmark examples such as Waipa, on page 91 of their draft Annual Plan for 2010/11.

Pie charts were used in last year's LTCCP to demonstrate private/public funding sources for each activity. We note that there are no pie charts in the Annual Plan, so we do not know if the percentage each funding source contributes has changed. For example, general district refuse collection cost has risen from \$544,180 that was forecasted in the LTCCP, to \$566,416 in the 2010/11 Annual Plan. There is no information on whether the percentage of funding from targeted rates and fees has risen to accommodate this extra cost, or if the general rate contribution has risen from the 10-15% contribution it made in the LTCCP.

RECOMMENDATION:

- **That Council provide a table of benchmark properties as rating examples.**
- **That the Annual Plan uses the pie charts as seen in the LTCCP showing funding sources for each activity, and any changes in funding source contributions from the LTCCP.**

3. GENERAL RATE

The general rate will be raised from \$177.84 in 2009/10 per \$100,000 of capital value of each rateable property, to \$184.62 in 2010/11. Once again, the LTCCP had no forecast of how this rate could change over the 10 year period. The rise is general rates from 2009/10 will be 3.8%.

Many members of the Federated Farmers \$10K Rates Group are from the Waikato District. This group was established in 2004 to provide evidence to Parliamentarians that many farmers pay more than \$10,000 in general rates for public good community services. Federated Farmers had been challenged in a select committee hearing to provide such evidence.

In our view Waikato District Council is over-reliant on the general rate mechanism. The general rate take is \$27,101,000 which is 55% of the total rate take. Waipa District Council in comparison relies on the general rate as only 35% of their total rates take. Thames Coromandel District Council raises 29% of its total rates from property value based rates.

Waikato Federated Farmers is disappointed that the general rate will continue to contribute towards water and wastewater activities in this Annual Plan. We also submitted to the LTCCP on this point. General rates paid by farmers will contribute towards these activities whether they are connected to this service or not. Therefore farmers and other non-connected properties will be subsidising others who *are connected*. This is unfair as farmers install and maintain their own water and wastewater systems at significant private cost, with no reciprocal rates funding from urban residents.

RECOMMENDATION:

- **That Council reduces reliance on the General Rate by fully utilising the UAGC and targeted rating mechanisms.**
- **That the General Rate is not used to subsidise reticulated water and wastewater services.**

4. TARGETED RATES

Waikato Federated Farmers supports the use of targeted rates. This improves transparency and equity, as those who will benefit from the activity will pay for that benefit.

However, targeted rates are used for only halls and community facilities, drainage and stormwater, refuse management, wastewater management and water supply. Activities such as Passenger Transport are not used by members of Federated Farmers as they are outside the transport routes. This is an example of a service that could be funded by rates targeted at the areas that are able to use the passenger transport service.

RECOMMENDATION:

- **That Council employ the use of targeted rates more so that only the populations that receive benefit from a Council activity are funding it**

5. UNIFORM ANNUAL GENERAL CHARGE

Waikato Federated Farmers supports the use of the Uniform Annual General Charge for activities such as libraries, where all people are the beneficiaries. This improves transparency and equity, as rural ratepayers are not unjustly burdened simply because of the value of their land.

The UAGC continues to remain at 19.28% level despite having risen from \$450 in 2009/10 to \$463 in 2010/11. We encourage Council to use the maximum 30% UAGC proportion allowed under legislation to further improve the equity of the rating burden. Farmers have appreciated the gradual progress towards this outcome.

We encourage Waikato District Council to follow Waipa District Council's lead with regards to the use of uniform targeted charges. Waipa District Council has five wards, with a uniform general rate ranging from \$676 up to \$746. This means that the ward uniform general rate and the targeted uniform charge makes up 40% of the total rates take.

RECOMMENDATION:

- **That Council continues to increase the use of the Uniform Annual General Charge with the aim that the 30% maximum proportion allowed under legislation is reached.**

6. TOURISM PROMOTION

The Annual Plan details that tourism promotion will be granted \$73,343 and the Rugby World Cup bid will be granted \$12,408.

Tourism promotion is also cited as a key example of the potential for councils to make effective use of the targeted rate mechanism in the “Local Government Know How – Guide to the Local Government Rating Act 2002”. This guide is aimed at assisting local authorities with their compliance with the Local Government Act.

Funding destination marketing entirely by the targeted rate reduces the cost impact of tourism promotion on ratepayers who receive no direct benefit, like farmers. Tourism is the only sector that receives funding via rates, and this raises issues over equity and which industry receives subsidies from other.

In the case of tourism, businesses in the accommodation, entertainment and retail sectors obtain a direct increase in turnover from increased visitor numbers - and therefore have a higher degree of direct benefit from council funding of tourism

promotion than farmers and other residents. The distribution of indirect economic benefit resulting from tourism is not evenly spread among the community, and nor should the costs of promotion. Tourism promotion is not a public good service and should not be funded as such.

Tourism promotion and the Rugby World Cup bid are both examples that will bring benefits directly to the tourism industry, yet the grant will be funded via rates paid by ratepayers throughout the district regardless of whether they derive any benefits. Farmers already pay levies for the development and promotion of their own industries. Farmers don't ask tourism businesses to pay these levies.

RECOMMENDATION:

- **That activities like tourism promotion and the Rugby World Cup bid are funded by a rate targeted at businesses that will gain direct benefit from these activities.**

7. REMISSION POLICY FOR ADVERSE EVENTS

Drought has been declared in Waikato from 8 April 2010. Drought is an adverse event that often goes unnoticed by urban New Zealanders, because of the long timescale. However, drought significantly impacts farmers, and the district economy.

In their report on regional and national impacts of the 2007-2009 drought, the Ministry of Agriculture and Forestry calculated that farm output in New Zealand declined by \$1.49 billion. Output was reduced because of the difference in farm gate sales and changes in capital livestock. Farm value added (net income) in New Zealand declined by \$1.89 billion. This arose from the decline in output and an increase in the cost of inputs, and run-down of feed reserves. In the Waikato Region, gross household income declined by \$126 million. Drought events can significantly damage farm finances and the ability to pay rates.

The Council should consider introducing a new remission policy for properties affected by an adverse event. Council could remit part or whole of the rates charged in any financial year on any land that has been detrimentally affected by an adverse event such as drought, flood, earthquake damage, or wild fire.

Central Otago District Council has a rates remission policy for land affected by natural disasters, and Whakatane District Council has a policy for a rating unit affected by a natural calamity. Federated Farmers urges the Council to follow their lead and introduce a remission policy for properties affected by an adverse event such as drought.

RECOMMENDATION:

- **That a new rates remission policy for properties affected by an adverse event is considered.**

8. LOCAL AUTHORITY SHARED SERVICES

Federated Farmers supports Waikato District Council's involvement in this shared services company. This is a significant step forward in reducing costs generic to councils in the region.

9. REFORM OF LOCAL GOVERNMENT FUNDING

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 relationship to either 'ability to pay' or use of a service. Rates therefore prevent communities 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.

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.

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').

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 goods.
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.
11. Government to establish a rates review office.

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. Federated Farmers not only submits to annual plans and LTCCPs around the country, we also advocate to central government on rate reform.

RECOMMENDATION:

- **That the Council advocates to central government for meaningful reform of local government funding.**

10. ABOUT FEDERATED FARMERS OF NEW ZEALAND

Federated Farmers is a not-for-profit primary sector policy and advocacy organisation that represents the majority of farming businesses in New Zealand. Federated Farmers has a long and proud history of representing the interests of New Zealand's farmers.

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.

Waikato Federated Farmers believes that every dollar that a farmer spends on rates is a dollar that will not be spent in the community on goods and services. We therefore believe that the Council should limit its spending to core services.

Federated Farmers thanks the Waikato District Council for considering our submission to the draft Annual Plan 2010/11.