

FEDERATED FARMERS RATES SURVEY – AUGUST 2009

In late August 2009 Federated Farmers surveyed its members on their local authority rates for the 2009/10 rating year compared to 2008/09 rating year. This was in response to a much larger than usual number of member calls complaining about rates increases triggered by huge 2007/08 revaluations coming into effect for the 2009/10 rating year.

The impact of these rates increases is particularly unwelcome during a recession. Farmers are facing pressure on their incomes and they are cutting their costs to minimise losses, but rates are a cost that cannot be cut without selling off their business's most important asset. Furthermore, the impact of these increases also further erodes the link between the rates paid and the access to and benefit derived from council activities and services.

SUMMARY OF FINDINGS

The main findings from this survey are:

- There is a large spread in the quantum of rates paid by farmers, with a number of farmers paying huge amounts in both district and regional rates.
- There is a large spread in the changes in rates from 2008/09 to 2009/10, with a number of farmers facing very large rates increases (although admittedly some are having rates decreases).
- Overall, average and median rates increases from survey respondents are much larger than the district/region wide increases as estimated in council draft long-term council community plans.
- The property revaluations undertaken in 2007/08 (at the height of the rural land boom) are now being felt in the 2009/10 rating year and they appear to be a significant factor behind the extreme rates increases being experienced in a number of areas.
- Fundamental reform of local government funding is the only real option to reduce the rates burden and reduce the volatility of rates caused by extreme changes in property valuations.

SURVEY RESULTS

The email survey was sent to all Federated Farmers members with email addresses and was open over a relatively short period (21-25 August). 520 responses were received, the largest volume of responses that we have received for an email survey, but with the respondents being 'self-selecting', this was not a scientific survey.

We asked members to provide us with their regional and district rates for 2008/09 and 2009/10, separately identified for each individual farm. Some councils (many of them regional councils) have yet to advise their ratepayers of their 2009/10 rates so a number of responses had to be excluded from the analysis.

Total Rates

On average, survey respondents paid regional and district rates totalling \$10,910 in 2008/09, rising to \$12,270 in 2009/10, for an average increase of 12.5%. The 'median' total rates were \$7,745 and \$8,996 respectively, an increase of 16.2%.

This is much higher than the rate of inflation (forecast to be less than 2% this year) and population growth (likely to be about 1% this year) and the large rates rises come at a time when farmers are struggling with a downturn in their incomes. Many farmers will be slashing their spending this year in order to minimise losses (let alone breakeven) but rates is one expense that is beyond the control of farmers (unless land is sold).

According to a Federated Farmers' analysis of 2009-19 draft Long Term Council Community Plans, total rates revenue for councils was forecast to increase around 6.6% for 2009/10 as opposed to 2008/09. Therefore, if the survey respondents are representative of farmers generally, this would indicate that farmers are being faced with nearly twice the increase in the rates burden compared to other ratepayers.

Averages and medians only tell part of the story though. Tables 1 and 2 break the respondents down by bands of total rates and rates increases.

Table 1 shows that there is a huge variation in both the quantum of rates paid and the increases in rates. Two farms (both of them Maori trusts) will be paying over \$100,000 in rates this year and a further six will be paying over \$50,000. 16.3% of respondents will be paying more than \$20,000 in total rates. The ten largest total rates burdens were in the following areas: Waitomo (x2), Taupo, Waikato, Horowhenua, Thames-Coromandel, Tararua, Southland, Matamata-Piako, and Gisborne.

Table 2 shows that there is a great deal of volatility in rates. Four farms will see their rates more than double in 2009/10 and in all 11.8% of farms are facing an annual rates increase of over 30%. On the other hand, around 12.1% of farms will be enjoying rates decreases, with one farm's total rates falling by 35%. The ten largest total rates increases were in the following areas: Tasman (x4), Invercargill (x2), Marlborough (x2), Gisborne, and Waikato.

Table 1

Quantum of Total Rates		
Rates	Number	% of Total
\$100,000+	2	0.4%
\$50,000-\$99,999	6	1.2%
\$30,000-\$49,999	19	3.9%
\$20,000-\$29,999	53	10.8%
\$15,000-\$19,999	43	8.8%
\$10,000-\$14,999	99	20.2%
\$7,000-\$9,999	67	13.6%
\$5,000-\$6,999	83	16.9%
\$3,000-\$4,999	70	14.3%
\$2,000-\$2,999	25	5.1%
\$1,000-\$1,999	17	3.5%
\$500-\$999	4	0.8%
0-\$499	3	0.6%
	491	100.0%

Table 2

Annual % Increase in Total Rates		
% Increase	Number	% of Total
100%+	4	0.8%
50%-99.9%	18	3.7%
40%-49.9%	13	2.6%
30%-39.9%	23	4.7%
20%-29.9%	37	7.5%
15%-19.9%	52	10.6%
10%-14.9%	62	12.6%
7.5%-9.9%	59	12.0%
5%-7.49%	58	11.8%
2.5%-4.99%	68	13.8%
0%-2.49%	38	7.7%
-9.9%-0	42	8.6%
-10%+	17	3.5%
	491	100.0%

The Tasman District appears to be a particular problem area with its 34 respondents averaging a 34.5% rates increase for 2009/10. Tasman (like a number of councils around the country) undertook its most recent property revaluation in 2007/08, at the height of the dairy land boom, and many respondents in the district reported valuation increases of well over 100%. This valuation effect (which is based on 'potential' use rather than actual economic use) will have been a major driver of the particularly large rates increases in the Tasman District.

One North Island Maori Trust, whose rates increased by 50% to over \$30,000, observed to us that its "land values are influenced by the trend to subdivide and sell coastal property.

For a Maori trust this will never happen so we are paying rates on ‘potential’ land value to a developer, not based on its current and future economic use as a farm”. Many other farmers feel the same – they have no intention of selling and even if they were to want to sell, at the present time they know they would be highly unlikely to receive anywhere near the 2007/08 value. A number of farmers who could see the implications for their rates did challenge their rating valuations (with mixed success) and some have gone further with appeals to the Land Valuation Tribunal.

Regional Rates

Regional councils’ core function is environmental regulation. With the exception of flood protection, regional councils do not have the core infrastructure commitments of district councils, and regional councils have a more limited role in terms of social, cultural and economic wellbeing.

On average, survey respondents paid regional rates of \$2,659 in 2008/09, rising to \$2,938 in 2009/10, for an average increase of 10.5%. The ‘median’ regional rates were \$1,726 and \$1,875 respectively, an increase of 8.6%.

Tables 3 and 4 break the respondents down by bands of rates and rates increases.

Despite regional councils having a more limited role, **Table 3** shows that there are a number of farmers who will be paying over \$10,000 to their regional council in 2009/10. The ten largest regional rates burdens were in: Environment Waikato (x5), Horizons RC (x4), and Environment Bay of Plenty.

Table 4 shows that there is wide variation in rates increases, with 16.1% of farms having regional rates increases of over 30% and 15.5% of farms experiencing regional rates decreases. The ten largest regional rates increases were in Environment Waikato (x5) Horizons RC (x2), Northland RC (x2), and Environment Bay of Plenty.

However, some caution is needed in interpreting these results as councils such as Hawkes Bay RC, Otago RC, and Environment Southland were yet to notify their ratepayers of their 2009/10 rates, so are not included in this analysis.

Table 3

Quantum of Regional Rates		
Rates	Number	% of Total
\$100,000+	0	0.0%
\$50,000-\$99,999	0	0.0%
\$30,000-\$49,999	0	0.0%
\$20,000-\$29,999	0	0.0%
\$15,000-\$19,999	6	2.0%
\$10,000-\$14,999	7	2.3%
\$7,000-\$9,999	13	4.4%
\$5,000-\$6,999	20	6.7%
\$3,000-\$4,999	43	14.4%
\$2,000-\$2,999	53	17.8%
\$1,000-\$1,999	79	26.5%
\$500-\$999	48	16.1%
0-\$499	29	9.7%
	298	100.0%

Table 4

Annual % Increase in Regional Rates		
% Increase	Number	% of Total
100%+	1	0.3%
50%-99.9%	5	1.7%
40%-49.9%	15	5.0%
30%-39.9%	27	9.1%
20%-29.9%	23	7.7%
15%-19.9%	11	3.7%
10%-14.9%	44	14.8%
7.5%-9.9%	21	7.0%
5%-7.49%	54	18.1%
2.5%-4.99%	34	11.4%
0%-2.49%	17	5.7%
-9.9%-0	27	9.1%
-10%+	19	6.4%
	298	100.0%

District Rates

On average, survey respondents paid district rates of \$9,267 in 2008/09, rising to \$10,458 in 2009/10, for an average increase of 13.1%. The 'median' district rates were \$6,816 and \$7,525 respectively, an increase of 10.4%.

As is the case for all ratepayers, district rates are the biggest component of a farm's total rates bill, but nevertheless the amounts that farmers have to pay in district rates are hard to justify. Apart from roading, the vast majority of farmers get either equal or less benefit from council activities than the average ratepayer – yet they pay so much more. To be fair, many councils understand this problem and do attempt to ameliorate it by using user pays, uniform charges (both general and targeted) and rural differentials, but even so the burden on farming remains heavy and seems to be growing rapidly.

Tables 5 and 6 break the respondents down by bands of rates and rates increases.

Table 5 shows that two farms, both of them Maori trusts in central North Island, pay rates of over \$100,000 to their district councils and 9.4% of respondents will this year be paying more than \$20,000 in district rates. The ten largest district rates burdens were in: Waitomo (x2), Gisborne (x2), Taupo, Waikato, Southland, Horowhenua, Tasman, and Rangitikei.

Table 6 shows that the wide variation in rates increases, with 12.6% of farms having district rates increases of over 30% and 13.2% of farms experiencing district rates decreases. The ten largest district rates increases were in Tasman (x3), Invercargill (x2), Marlborough (x2), Gisborne, Waikato, and Waitomo.

Table 5

Quantum of District Rates		
Rates	Number	% of Total
\$100,000+	2	0.4%
\$50,000-\$99,999	4	0.8%
\$30,000-\$49,999	16	3.3%
\$20,000-\$29,999	24	4.9%
\$15,000-\$19,999	50	10.3%
\$10,000-\$14,999	90	18.6%
\$7,000-\$9,999	62	12.8%
\$5,000-\$6,999	93	19.2%
\$3,000-\$4,999	86	17.7%
\$2,000-\$2,999	27	5.6%
\$1,000-\$1,999	22	4.5%
\$500-\$999	6	1.2%
0-\$499	3	0.6%
	485	100.0%

Table 6

Annual % Increase in District Rates		
% Increase	Number	% of Total
100%+	4	0.8%
50%-99.9%	20	4.1%
40%-49.9%	11	2.3%
30%-39.9%	26	5.4%
20%-29.9%	35	7.2%
15%-19.9%	37	7.6%
10%-14.9%	64	13.2%
7.5%-9.9%	66	13.6%
5%-7.49%	56	11.5%
2.5%-4.99%	67	13.8%
0%-2.49%	27	5.6%
-9.9%-0	45	9.3%
-10%+	19	3.9%
	485	100.0%

SOLUTIONS

Federated Farmers strongly supports the Minister of Local Government's plans to encourage councils to focus on core business and make councils more accountable, transparent, and fiscally responsible. Meanwhile, Federated Farmers will continue its ongoing efforts at a local level to improve council rating systems to getting a fairer deal for farmers.

However, this survey has reminded us that regardless of how prudent a council is with ratepayers' money and no matter how accountable and transparent and focused on the basics, the valuer's pen will have a huge potential impact on rates.

This means fundamental reform of local government funding is necessary to reduce the reliance on rates based on property value. Reform should include:

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.
3. Councils to make greater use of targeted rates, and Government to provide more guidance on their use.
4. Government to substantially increase the financial assistance rate for the funding of local roads and councils to reduce their roading rates accordingly.
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 and encourage greater use of ratepayer referenda and polls.
9. Councils to report information consistently for performance benchmarking.
10. Councils to provide ratepayers with itemised rates assessments.
11. Government to establish a rates review office.