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WESTERN LANDS LEASE RENTALS: REASONABLE, RIP-OFF OR RORT?

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reasonable adj. 3 moderate, or moderate in price (Macquarie Dictionary)
rip-off n. an excessive charge or price; swindle
rort n. 1 a trick; lurk; scheme (Macquarie Dictionary of Australian Colloquialisms)

ABSTRACT

Since 1902, rents for grazing leases in the Western Division of New South Wales, and wool prices, have remained constant in real terms. All other costs of running a grazing property have increased. Grazier lobbying has been accepted by the NSW Government and Western Lands Commission who have been very reluctant to increase rentals to reasonable levels. As a consequence, graziers are paying minuscule rents, and taxpayers in the state are subsidising their grazing enterprises. Further, rents may be deferred and rebates granted in cases of financial hardship. A more equitable rental system would be based on a percentage of the unimproved capital value of the lease, and indexed annually using commodity prices.

INTRODUCTION AND LEGISLATIVE BACKGROUND

In 1884, the NSW Crown Lands Act created the Western Division as an administrative region over virtually all of the semi-arid rangelands of the state (**Fig. 1**). Rather than being converted into freehold, land was leased. In the late 1890s, recession, droughts and the cumulative impact of overstocking ruined many graziers. The government investigated the causes of the problems in a Royal Commission (1901). The major outcome was the Western Lands Act, 1901. The Act came into force on 1 January 1902 and established the Western Land Board (currently Western Lands Commission, WLC) to administer the Western Division.

Today, some 90 years later, over 93% of the Division remains leasehold under the Act which controls all aspects of land use, management and administration. In return for the privilege of sole use of the land in a western lands lease, lessees must: '...pay rent annually in advance.' (S18, Schedule A). The amount of the rental is set in Part VI and S.19C(2).

Rent is a continuing irritant to many lessees and especially to grazier organisations such as the NSW Farmers Association. Typical comments are that 'excessively high rentals are stifling progress', and even 'high rentals have sent several graziers bankrupt'. Others, (rarely lessees!) argue that rents are totally concessional, and represent the least of the fixed costs in running a property: 'an average grazier spends more money on tyres than on the rental'. Given such a disparity in views, it is appropriate to examine available data on rentals.

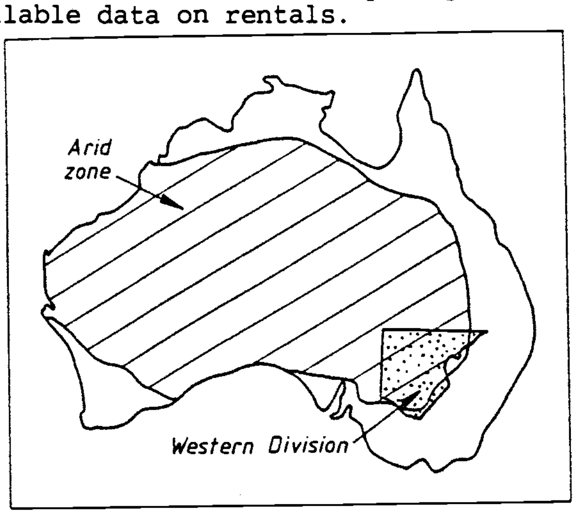

Figure 1.
Map of Australia showing location of the Western Division (stippled) in the arid zone (hatched).

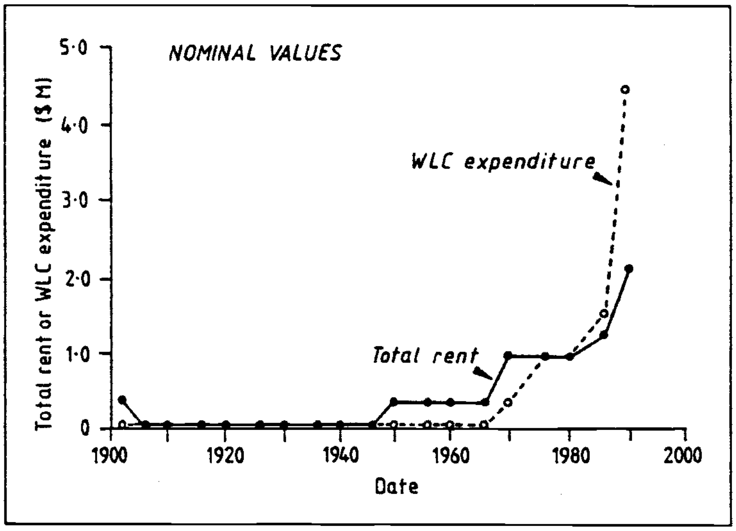

Figure 2. Changes from 1902-1990 in *nominal* values of total rental income from the Western Division, and total expenditure of the WLC. Source: WLC Annual Reports.

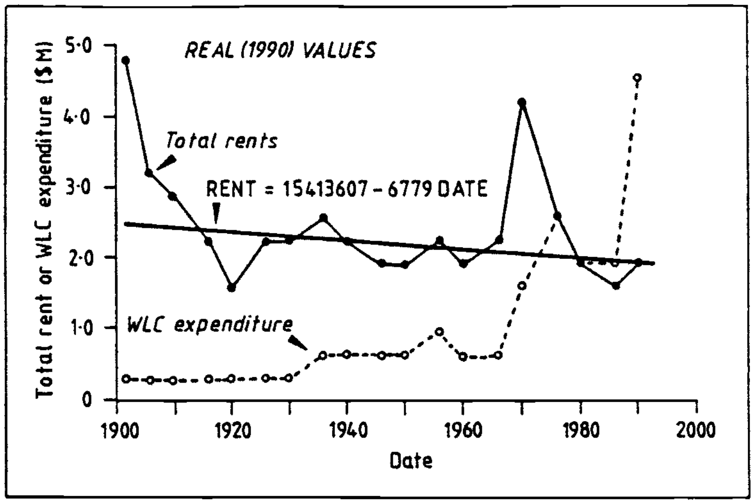

Figure. 3. Changes from 1902-1990 in real (1990) value of total rental income from the Western Division, and total expenditure of the WLC. Fitted regression line on rents omits 1902 and 1970, see text for details. Source: WLC Annual Reports.

In this paper I consider changes in rentals of grazing leases under the Western Lands Act ('western lands leases') from 1902 to 1990. Specific aspects considered are: total value of rentals and costs of administering the Western Lands Commission. These results will be compared with wool prices and indices of costs of agricultural production to determine the relative values of rentals and other costs. Results here summarise more complete analyses to be presented elsewhere (Pickard, in preparation a, b).

SOURCES OF DATA AND INDICES, AND DATA MANIPULATION

The bulk of the data used in the paper come from every fifth year of the Annual Reports of the Commission from 1902 to 1990, i.e. 1902, 1906, 1910, 1915,... giving a total of 19 time periods. Nominal values in the raw data have been converted using the long-term linked series of retail price index compiled by the Australian Bureau of Statistics (ABS 1990).

RENTAL INCOME 1902-1990

The nominal value of total rental income from the Division has increased enormously from 1902 to 1990, but only after 60 years of constant values (Fig. 2). As land was brought under the Western Lands Act, there was a fall of 50% in rental income from 1902 to 1906. Since 1950, and more particularly, since 1980, the trend has been a steady increase. It is this trend that graziers claim is causing hardship: 'My grandfather took up this lease in 1902 and only paid 30 pounds rental. I am now expected to pay $1100! The government is ripping me off!'

However, when the values are standardised into real 1990 dollars, the trend is markedly different (**Fig.** 3). Instead of an exponential increase, there is an slight but non-significant decrease from 1906 to 1990. High values in 1902 and 1970 are exceptional, but for different reasons. The high value for 1970 is a result of moderate nominal values and stationary retail price index. Rents in 1902 were still high as they were based on the old rents of the Crown Lands Act rather than the concessional rents of the new Western Lands Act. Omitting these two years we obtain a rather weak regression equation:

4 RENT = 15413607 - 6779 DATE (R^2 = 21.3%, p = 0.06)

The slight rise in 1990 follows the 1989 introduction of minimal rentals of $70 to ensure that the rentals at least covered the cost of administering the tenure (S19E and Regulation 50D).

WESTERN LANDS COMMISSION EXPENDITURE 1902-1990

Nominal expenditure was constant from 1902 to 1965, but has increased exponentially since (**Fig.** 2). Expenditure in real 1990 dollars shows a substantially similar pattern (**Fig.** 3). Decades of relative stability were broken by relatively small increases until 1965 after which expenditure increased markedly. The increase from 1985 to 1990 is particularly steep.

Until 1975, Commission expenditure was always less than rental income from the Division (**Fig.** 3), typically with values only 30% of income. The Commission was a highly profitable organisation! Since 1975, the position has completely changed. Expenditure is outstripping rents, and in 1990 was over twice as high. In the political climate of 'economic rationalism' and 'user pays' of the late 1980s and early 1990s, this is anomalous. There is no simple explanation of the increase from 1985 to 1990, but it may represent the cost of the Commission attempting to protect the environment in the Division.

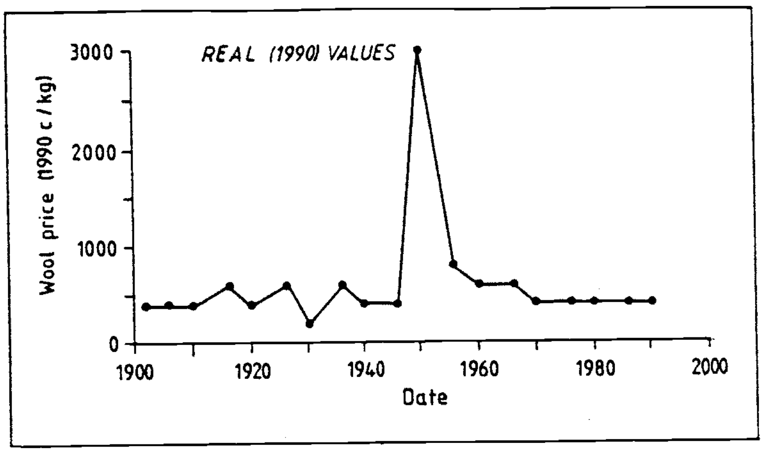

Figure 4.
Changes from 1902-1990 in real price (1990 cents) realised per kg of wool for Australia. Source: BAE (1973), NCWSBA (1980/81-1990/91).

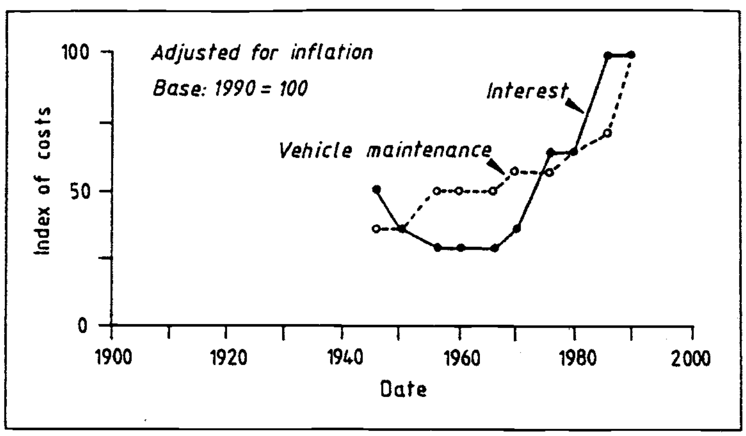

Figure 5.
Changes from 1945-1990 in index of cost of interest paid by NSW farmers on borrowed capital, and cost of maintenance of machinery, equipment and motor vehicles (both adjusted for inflation), base year 1990=100. No data for years 1902-1940. Source: ABARE (1992), C. Johnson (ABARE, pers. comm. 6 March 1992).

WOOL PRICES AND MARKET INDICES 1902-1990

The most important single statistic for wool growers is the price of their wool. Over the last 90 years, the real price of wool has remained virtually constant, with a single notable exception in 1950 (**Fig. 4**). The 1950s wool PPboom is best regarded as an anomaly in the overall trend.

In marked contrast, indices of costs (adjusted for inflation) have increased steeply over recent decades. The cost of interest on borrowed capital declined from 1945 to 1960 but has risen steadily since with minor pauses (**Fig. 5**). Costs of vehicle and machinery maintenance jumped in 1955, were steady until 1965 and have increased continually since 1975. The disparity between steep rises in costs and unchanging wool prices are the major cause of present (and likely future) economic ills of the wool industry in semi-arid Australia.

Rents are clearly anomalous compared with other costs. While rents have remained constant or slightly decreased, all other costs have increased substantially.

RENTAL REBATES

One provision of the Western Lands Act that is little-known outside the Division, provides for rebates of rents. S20(1) allows the Minister to grant a rebate of the rent payable, and Regulation 50E(1b) lists the prescribed classes of lessees and leases. Rents may also be deferred for periods of up to 10 years under S20(2). "Interest would not normally be applied where approval has been given for deferral." (Anon 1991).

There is no similar provision in the Local Government Act to allow rebate of local government rates in similar circumstances. Most local governments do make provision for extended payment of outstanding rates, but usually require that interest is payable at close to market rates.

Rents and local government rates are often of similar magnitude in the Division. Yet, there is rarely the same invective directed towards rates. The reason is probably simple. Rates are used to maintain roads, etc. thus rate-payers can see tangible uses of their money. Rent is paid to the Commission which is perceived as an interfering bureaucracy. Many lessees apparently forget that the land is owned by the Crown, and as it is fundamental to their grazing enterprises, then a rental should be paid.

RENTALS: REASONABLE, RIP-OFF OR RORT?

Lease rentals may be the only cost of running a grazing property that has remained stationary or slightly decreased in real terms over the last 90 years. Thus it is impossible to rationally sustain the 'rip-off' argument. It is equally difficult to conclude that they are reasonable when they are so low. No commercial landlord would dream of renting property which exceeds 40% of New South Wales for peppercorns and with no allowance for inflation!

Minimising costs is an essential part of running a grazing enterprise. Graziers and their organisations lobby the elected government and the Commission to delay rent increases, and expand concessions. A recent example was (unsuccessful) opposition to amendments to S19C(7) which reduces the period between redeterminations of rents from 10 years to 5 years (S19C(7)). This minimises the time during which rents remain fixed in nominal terms, but declining in real terms.

How many graziers are involved? The two grazier organisations (Pastoralists Association of West Darling) and Western Division Branch of the NSW Farmers Association have ca 120 and 600 financial members each. In 1992 there are perhaps 1800 properties. This relatively small number of graziers is very adept at ensuring that their rents remain concessional indefinitely. While they do so, the taxpayers of New South Wales are unknowingly subsidising the graziers of the Western Division. Thus I conclude that western lands lease rentals are a rort perpetrated on the taxpayers of New South Wales by successive elected governments and Western Lands Commissioners who have bowed meekly to the pressure of a very few graziers.

THE FUTURE: EQUITY AND AN END TO THE RORT?

There are three components of a rental system: the basis, which should be related to the 'income-generating potential' of the land (i.e. better land should attract a higher rental); the level of the rental; and indexing the rental to match inflation.

Rents are currently based on one of the simplest measures of the income-generating potential of the land, sheep areas: the area of land that will carry one sheep year in, year out for at least a decade. Virtually all current assessments of rental carrying capacity (total number of sheep areas/lease) were made in the late 1940s and early 1950s with very few changes since despite substantial increases in estimated carrying capacity (Pickard 1990, 1991). Thus many current rentals are based on underestimates of rental carrying capacity (Pickard, in preparation b). However, an increasing number are now overestimates as woody weeds spread, become more dense and reduce productivity of the land.

The first alternative is to base rents on the numbers of sheep carried on a given census date. Traditionally Rural Lands Protection Boards (RLPBs) levied rates in this way. The Royal Commission (1901) was skeptical of this approach, concluding that lessees would understate stock numbers. Indeed, Young and Miles (1982) found persistent and considerable under-reporting in returns to the RLPBs. This system relies on self-regulation and is clearly being abused. More recently the RLPBs have moved towards a system of assessment similar to that used by the Commission.

The second alternative is to impose a levy on the produce of the lease. This is generally assumed to be not permitted as it is a tax, rather than a rent. The third alternative is "grazing fees" of the type charged by the Bureau of Land Management for leasehold federal rangeland in USA. This is not appropriate to the Division as the land here is leased for the sole use of one person. In USA, the leased rangeland is a common resource, grazed by groups of ranchers (Libecap 1981).

The fourth alternative is to levy rent as a percentage of some value of the lease, typically the capital value. Rents on agricultural leases in the Division are now based on 2.5% of the capital value (S19C(3) & (4)). As the capital value is almost directly determined by the most recent sale prices of comparable land, this method is based on the graziers' own assessments of the income-generating potential: they pay more for better land. It also has the administrative advantage that capital values are determined by the Valuer Generals Department, independently of the Commission. If this valuation includes improvements (fences, waters, etc.) then there is an obvious disincentive to improve the lease. The fifth option is to use the unimproved capital value of the lease as the base. This removes the problem just described, but has the other advantages.

Of the six options, only the last has any real merit. It is based directly on what graziers think that the land is worth, and presumably this is based on how much money they think they can make from it. One disadvantage is the lag in valuation. Values increase in a boom period (mid 1980s), and these persist into a bust period (early 1990s). The converse is equally true, so the impact is probably minimal overall.

The level of rental is the next problem. Any increase in the rent reduces the overall profitability of the lease, and hence the resale and capital value of the lease. The concessional rentals are now capitalised into the value of the land. Realistically, the rent will have to be < 5% of the capital value.

Finally, the rent must be indexed. The data presented here show that rentals are anomalous because they have not been indexed to keep pace with inflation. Rental income to the State would have been considerably larger and more equitable (to the citizens of the NSW) if it had been indexed from 1902. The choice of index is difficult: the retail price index used here is not totally appropriate, it should be based on commodity prices. Obviously indexed rentals will fall when prices fall.

In conclusion, I suggest that rents would be more equitable in the future if they were based on a percentage of the unimproved capital value of the lease and indexed annually to commodity prices. A rational decision by the government of NSW and the Western Lands Commission would end the 90 year rort that has characterised western lands lease rentals. However, in the present rural depression, any suggestion to increase rents will meet fierce resistance. Consequently, rents will remain unchanged for the foreseeable future.

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