12.4.4. 2018/19 Budget - Strategic Rating Policy, Rates Modelling and Local Public Notice

DATE:	24 April 2018
AUTHOR:	Director Corporate Services
RESPONSIBLE OFFICER:	Vernon Lawrence, Director Corporate Services
FILE NO:	FM.05.16
DISCLOSURE OF INTERESTS:	Nil

VOTING REQUIREMENT

Simple Majority

OFFICER'S RECOMMENDATION

That Council:

1. **Endorse the revised Council Policy *CP/FIN-3200 Strategic Rating*;**

2. **Endorse the 2018/19 Rating Model as follows, with the intention of seeking public submissions thereon and thereafter striking the rates as part of the 2018/19 Budget adoption, subject to receiving Ministerial approval where required by legislation;**

Differential Rating Category	Total Properties	Total Rateable Value of Properties $	Proposed Minimum Payment $	Proposed Rate in the Dollar	% of Properties on Minimum Payments	Proposed Rates Revenue Budget 2018/19 $
GRV - Residential	1703	24,657,507	1,125	0.1929	2.00%	4,768,065
GRV - Other Vacant	123	781,613	1,125	0.1570	75.61%	181,065
GRV - Commercial	186	10,389,648	1,125	0.1794	10.75%	1,872,143
GRV - Industrial	177	6,406,005	1,125	0.1642	4.52%	1,057,403
UV - Rural Residential	185	45,908,000	1,125	0.0111	0.00%	509,579
UV - Pastoral	23	5,903,151	1,125	0.0577	4.35%	340,729
UV - Commercial/ Industrial	62	12,219,960	1,125	0.0078	32.26%	115,318

UV - Rural Agriculture 1	**82**	**61,162,309**	**1,125**	**0.0117**	**1.22%**	**716,607**
UV - Rural Agriculture 2	**109**	**34,018,000**	**1,125**	**0.0102**	**0.00%**	**346,984**
UV - Mining	**70**	**1,734,978**	**1,125**	**0.2855**	**47.14%**	**517,942**
UV - Mining Exploration and Prospecting	**46**	**400,070**	**310**	**0.1428**	**47.83%**	**60,241**
UV - Other	**3**	**8,525,000**	**1,125**	**0.0066**	**0.00%**	**56,265**
TOTALS	**2,769**	**212,106,240**				**10,542,341**

3. Endorses for advertising for a minimum of twenty-one (21) days and seeks public submissions on:

a. Council Policy *CP/FIN-3200 Strategic Rating* (Attachment 1) that outlines the principles which underpin the proposed 2018/19 rating model, including the Object of and Reasons for Differential Rates;

b. The Draft 2018/19 Rating Model (Attachment 2) which incorporates the Object of and Reasons for Differential Rates, along with the proposed differential rates and minimum payments to be applied from 1 July 2018 for the 2018/19 financial year in accordance with section 6.36 of the *Local Government Act 1995*.

Shire President David Menzel moved an amendment to the motion to advertise the rating model at 0.08% noting the Officers model reflects a 1.2% increase.

<u>COUNCIL DECISION</u>

Minute Number: 24/4/2018- 117943

Moved: Cr D Menzel
Seconded: Cr M Dear

That Council:

1. Endorse the revised Council Policy *CP/FIN-3200 Strategic Rating*;

2. Endorse the 2018/19 Rating Model as follows, with the intention of seeking public submissions thereon and thereafter striking the rates as part of the 2018/19 Budget adoption, subject to receiving Ministerial approval where required by legislation;

Differential Rating Category	Total Properties	Total Rateable Value of Properties $	Proposed Minimum Payment $	Proposed Rate in the Dollar	% of Properties on Minimum Payments	Proposed Rates Revenue Budget 2018/19 $
GRV - Residential	1,703	24,657,507	1,121	0.1921	2.00%	4,748,318
GRV - Other Vacant	123	781,613	1,121	0.1563	75.61%	180,371
GRV - Commercial	186	10,389,648	1,121	0.1786	10.75%	1,864,225
GRV - Industrial	177	6,406,005	1,121	0.1636	4.52%	1,053,430
UV - Rural Residential	185	45,908,000	1,121	0.0111	0.00%	509,028
UV - Pastoral	23	5,903,151	1,121	0.0575	4.35%	339,289
UV - Commercial/ Industrial	62	12,219,960	1,121	0.0078	32.26%	114,781
UV - Rural Agriculture 1	82	61,162,309	1,121	0.0117	1.22%	716,603
UV - Rural Agriculture 2	109	34,018,000	1,121	0.0102	0.00%	346,330
UV - Mining	70	1,734,978	1,121	0.2844	47.14%	515,885
UV - Mining Exploration and Prospecting	46	400,070	310	0.1422	47.83%	60,027
UV - Other	3	8,525,000	1,121	0.0066	0.00%	55,856
TOTALS	2,769	212,106,241				10,504,143

3. That Council endorses for advertising for a minimum of twenty-one (21) days and seeks public submissions on:

a. Council Policy *CP/FIN-3200 Strategic Rating* (Attachment 1) that outlines the principles which underpin the proposed 2018/19 rating model, including the Object of and Reasons for Differential Rates;

b. The Draft 2018/19 Rating Model (Attachment 2) which incorporates the Object of and Reasons for Differential Rates, along with the proposed differential rates and minimum payments to be applied from 1 July 2018 for the 2018/19 financial year in accordance with section 6.36 of the *Local Government Act 1995*.

Not carried 2/5

Councillor Alma Petherick moved an amendment to the original motion to advertise the rating model at an actual increase of 0%.

COUNCIL DECISION

Minute Number: 24/4/2018- 117944

Moved: Cr A Petherick
Seconded: Cr D Pearce

That Council:

1. **Endorse the revised Council Policy *CP/FIN-3200 Strategic Rating*;**

2. **Endorse the 2018/19 Rating Model as follows, with the intention of seeking public submissions thereon and thereafter striking the rates as part of the 2018/19 Budget adoption, subject to receiving Ministerial approval where required by legislation;**

Differential Rating Category	Total Properties	Total Rateable Value of Properties $	Proposed Minimum Payment $	Proposed Rate in the Dollar	% of Properties on Minimum Payments	Proposed Rates Revenue Budget 2018/19 $
GRV - Residential	1703	24,657,507	1,112	0.1906	2.00%	4,711,230
GRV - Other Vacant	123	781,613	1,112	0.1551	75.61%	178,945
GRV - Commercial	186	10,389,648	1,112	0.1772	10.75%	1,849,828
GRV - Industrial	177	6,406,005	1,112	0.1623	4.52%	1,044,799
UV - Rural Residential	185	45,908,000	1,112	0.0110	0.00%	504,988
UV - Pastoral	23	5,903,151	1,112	0.0570	4.35%	336,596
UV - Commercial/ Industrial	62	12,219,960	1,112	0.0077	32.26%	113,868
UV - Rural Agriculture 1	82	61,162,309	1,112	0.0116	1.22%	710,479
UV - Rural Agriculture 2	109	34,018,000	1,112	0.0101	0.00%	343,582
UV - Mining	70	1,734,978	1,112	0.2821	47.14%	511,787
UV - Mining Exploration and Prospecting	46	400,070	310	0.1411	47.83%	59,605

UV - Other	3	8,525,000	1,112	0.0065	0.00%	55,413
TOTALS	**2,769**	**212,106,240**				**10,421,120**

3. That Council endorses for advertising for a minimum of twenty-one (21) days and seeks public submissions on:

a. Council Policy *CP/FIN-3200 Strategic Rating* (Attachment 1) that outlines the principles which underpin the proposed 2018/19 rating model, including the Object of and Reasons for Differential Rates;

b. The Draft 2018/19 Rating Model (Attachment 2) which incorporates the Object of and Reasons for Differential Rates, along with the proposed differential rates and minimum payments to be applied from 1 July 2018 for the 2018/19 financial year in accordance with section 6.36 of the *Local Government Act 1995*.

Carried 6/1

PURPOSE

For the Council to consider the amendments to Council Policy *CP/FIN-3200 Strategic Rating* and the rating model prepared based on the updated Policy. For the Council to further endorse advertising and community engagement on Council Policy *CP/FIN-3200 Strategic Rating* and the rating model.

NATURE OF COUNCIL'S ROLE IN THE MATTER

Regulator - enforce state legislation and local laws

BACKGROUND/ PREVIOUS CONSIDERATIONS BY COUNCIL/ COMMITTEE

Rates revenue is a substantial source of discretionary revenue for the Shire of Wyndham East Kimberley, accounting for approximately 48.3% of the total operating revenue in the adopted 2018/19 Budget. The *Local Government Act 1995* (the Act) empowers local governments to impose differential general rates and minimum payments on rateable land.

The Shire of Wyndham East Kimberley has adopted a differential general rate and general minimum payments for a number of years. The imposition of differential rates is a conscious decision by the Council to distribute the rate burden in its district by imposing a higher impost on some ratepayers and a lower impost on others.

The overall objective of a rating model is to provide for the net funding requirements of the Shire's services, activities, financing costs and the current and future capital requirements of the Shire as outlined in the Strategic Community Plan, Long Term Financial Plan and Corporate Business Plan. Asset management is a significant challenge for all local governments and any rating model must also support asset renewal and replacement requirements in line with defined service levels.

In accordance with the Act, the Minister for Local Government is authorised to approve the following in relation to rates:

- The imposition of a differential general rate which is twice the lowest differential general rate imposed by a local government;
- A minimum payment on vacant land that does not comply with legislative provisions;
- Changes in the method of valuation of land; and
- Land exempt from rates.

The Department of Local Government and Communities has developed a range of policies and application forms to ensure that local governments provide all the necessary information.

The Council adopted a revised Council Policy *CP/FIN-3200 Strategic Rating* during 2014/15 which utilised five (5) principles (these continued to be applied in the current planning considerations) in the development of the rating methodology being:

1. Equity
2. Incentive
3. Administrative Efficiency
4. Compliance
5. Sustainability.

The differential rates applied ensure greater equity and contribution of rates according to land use, zoning or a combination of these. The 2014/15 financial year was the first year that the differential rating model (including minimum payments) attempted to align with the Town Planning Scheme No. 7 Kununurra and Environs (TPS7) and the Town Planning Scheme No. 6 Wyndham Townsite (TPS6) in an effort to ensure greater equity across the rating differential categories.

The current Town Planning Schemes are in the process of being replaced by Town Planning Scheme No. 9 (TPS9). The Strategic Rating Policy is quite clear in that it will not only be reviewed on an annual basis, but that where TPS6 or TPS7 are amended or superseded, the Policy will be reviewed and the new zones and land uses will be considered when amending the rating model. The TPS9 draft has been considered and the impact on the Policy is highlighted in the track changes to the document. These changes to rating policy will be either cosmetic or minor.

After consideration of the rating principles and the alignment of the rating differential model to the Town Planning Schemes, there has been no amendments to the current differential rating categories, however there has been a review of the objects of and reasons for the differential rates proposed in 2018/19.

Rates are calculated by multiplying the valuation (either GRV or UV), provided by Landgate (the Valuer-General), with a rate in the dollar, imposed by the Council. When Landgate perform a general revaluation of properties as is the case for this budget process, the Shire can adjust the rate in the dollar to offset significant fluctuations in valuation in order to maintain the overall rate yield (amount of rates collected) and preserve the rate yield per category. It is customary to preserve the ratios between the different rate categories by increasing the yield from each category uniformly on an annual basis to maintain the service levels provided by the Shire. This is the “rate increase” and is subject to much community comment. Please note that this does not mean that the rate in the dollar will increase uniformly.

The GRV Residential rating category is still classified in the 2017/18 Policy as the “base rate” from which other differential rates that hold a GRV value are calculated. In prior years multipliers were applied to three (3) of the GRV categories in order to determine the revised rate in the dollar. For example, a multiplier of 1.5 times the base rate in the dollar has been applied to GRV Other Vacant land; a multiplier of 1.3 times the base rate in the dollar for GRV Commercial and 1.2 times for GRV Industrial. It was the intention in the Policy for the multiplier to be increased for the GRV Commercial rate in the dollar to reach 2 times the base rate and be capped and the GRV Industrial rate in the dollar reach 1.7 times the base rate and be capped.

These multipliers have remained the same since 2015/16, in part, to recognise the downturn in the economy and to provide some alleviation of the rates burden on businesses, both commercial and industrial, that are experiencing this downturn the most. The continued application of these multipliers needs to be reconsidered in the light of the GRV revaluation.

The policy has also in the past allowed for the application of a Kimberley loading of 70%. This means that any proposed rate increase is factored up by 70% to determining the base rate in the dollar. By doing this the increase to be applied would be determined by a calculation that reflected the increased cost of doing business in the Kimberley.

Also as outlined in the Policy, it is intended that the UV Rural Residential and the UV Commercial/Industrial rating categories are transitional. The intent is for the Shire to work through the legislative process required to have GRV values placed on these land parcels given what the land is being used for. This is quite a lengthy process, and could take some time to achieve depending upon the resources of the Valuer-General, but would certainly ensure that the rating model is as equitable as possible. The risk of undertaking the process and formally applying to the Minister for the land to be GRV valued may be a reduction in revenue depending upon the valuations that are provided by the Valuer-General. Any reduction in revenue would ultimately need to be made up through a higher rate in the dollar being applied to compensate.

STATUTORY IMPLICATIONS

Local Government Act 1995
Part 5
Division 6 – Disclosure of financial interests

5.63. Some interests need not be disclosed

(1) Sections 5.65, 5.70 and 5.71 do not apply to a relevant person who has any of the following interests in a matter —

(a) an interest common to a significant number of electors or ratepayers; or

(b) an interest in the imposition of any rate, charge or fee by the local government; or

(c) an interest relating to a fee, reimbursement of an expense or an allowance to which section 5.98, 5.98A, 5.99, 5.99A, 5.100 or 5.101(2) refers…

Local Government Act 1995
Part 6
Division 6 – Rates and service charges

6.33. Differential general rates

(1) A local government may impose differential general rates according to any, or a combination, of the following characteristics —

(a) the purpose for which the land is zoned under a local planning scheme in force under the Planning and Development Act 2005;

(b) the predominant purpose for which the land is held or used as determined by the local government;

(c) whether or not the land is vacant land; or

(d) any other characteristic or combination of characteristics prescribed.

(2) Regulations may —

(a) specify the characteristics under subsection (1) which a local government is to use; or

(b) limit the characteristics under subsection (1) which a local government is permitted to use.

(3) In imposing a differential general rate a local government is not to, without the approval of the Minister, impose a differential general rate which is more than twice the lowest differential general rate imposed by it.

(4) If during the financial year, the characteristics of any land which form the basis for the imposition of a differential general rate have changed, the local government is not to, on account of that change, amend the assessment of rates payable on that land in respect of that financial year but this subsection does not apply in any case where section 6.40(1)(a) applies.

6.35. Minimum payment

(1) Subject to this section, a local government may impose on any rateable land in its district a minimum payment which is greater than the general rate which would otherwise be payable on that land.

(2) A minimum payment is to be a general minimum but, subject to subsection (3), a lesser minimum may be imposed in respect of any portion of the district.

(3) In applying subsection (2) the local government is to ensure the general minimum is imposed on not less than -
(a) 50% of the total number of separately rated properties in the district; or
(b) 50% of the number of properties in each category referred to in subsection (6),

on which a minimum payment is imposed.

(4) A minimum payment is not to be imposed on more than the prescribed percentage of -
(a) the number of separately rated properties in the district; or
(b) the number of properties in each category referred to in subsection (6),

unless the general minimum does not exceed the prescribed amount.

(5) If a local government imposes a differential general rate on any land on the basis that the land is vacant land it may, with the approval of the Minister, impose a minimum payment in a manner that does not comply with subsections (2), (3) and (4) for that land.

(6) For the purposes of this section a minimum payment is to be applied separately, in accordance with the principles set forth in subsections (2), (3) and (4) in respect of each of the following categories -
(a) to land rated on gross rental value;
(b) to land rated on unimproved value; and
(c) to each differential rating category where a differential general rate is imposed.

<u>6.36. Local government to give notice of certain rates</u>
(1) Before imposing any differential general rates or a minimum payment applying to a differential rate category under section 6.35(6)(c) a local government is to give local public notice of its intention to do so.
(2) A local government is required to ensure that a notice referred to in subsection (1) is published in sufficient time to allow compliance with the requirements specified in this section and section 6.2(1).

(3) A notice referred to in subsection (1)
(a) may be published within the period of 2 months preceding the commencement of the financial year to which the proposed rates are to apply on the basis of the local government's estimate of the budget deficiency;

(b) is to contain -

(i) details of each rate or minimum payment the local government intends to impose;

(ii) an invitation for submissions to be made by an elector or a ratepayer in respect of the proposed rate or minimum payment and any related matters within 21 days (or such longer period as is specified in the notice) of the notice; and

(iii) any further information in relation to the matters specified in subparagraphs (i) and (ii) which may be prescribed; and

(c) is to advise electors and ratepayers of the time and place where a document describing the objects of, and reasons for, each proposed rate and minimum payment may be inspected.

(4) The local government is required to consider any submissions received before imposing the proposed rate or minimum payment with or without modification.

(5) Where a local government -

(a) in an emergency, proposes to impose a supplementary general rate or specified area rate under section 6.32(3)(a); or

(b) proposes to modify the proposed rates or minimum payments after considering any submissions under subsection (4),

it is not required to give local public notice of that proposed supplementary general rate, specified area rate, modified rate or minimum payment.

Local Government (Financial Management) Regulations 1996

<u>52A. Differential general rates — s. 6.33(1)(d)</u>

6.33 (1)(d) For the purposes of section 6.33(1)(d), the following are prescribed characteristics —

(a) whether or not the land is situated in a townsite as defined in the Land Administration Act 1997 section 3(1);

(b) whether or not the land is situated in a particular part of the district of the local government.

<u>POLICY IMPLICATIONS</u>

The proposed differential general rates and minimum payments in the rate model are based on the Council's revised Policy *CP/FIN-3200 Strategic Rating* that aligns the rating model closely to the current Town Planning Scheme No. 7 Kununurra and Environs (TPS7) and the current Town Planning Scheme No. 6 Wyndham Townsite (TPS6) in terms of land use. Town Planning Scheme No. 9 is in the process of superseding the existing Schemes. The implications of the new Scheme on the rating policy will be minor and cosmetic.

If there are modifications made to the structure of differential general rates, multipliers or minimum payments from those proposed, then Council Policy *CP/FIN-3200 Strategic Rating* may need to be amended to reflect the modifications.

It should be noted that Council's Policy *CP/FIN-3200 Strategic Rating* incorporates references to Council Policy *CP FIN-3208 Rates Exemptions for Charitable Organisations (Non-Rateable Land)*; however there are no subsequent amendments required.

<u>FINANCIAL IMPLICATIONS</u>

The differential general rates and minimum payments per the rating model are expected to yield total net rate revenue of $10,542,341. The overall increase in total rate revenue is 1.65%

The rate revenue generated is based on a natural growth of 0.54% and an average rate increase of 1.2%.

<u>STRATEGIC IMPLICATIONS</u>

Strategic Community Plan 2012-2022

Goal 1: Strong leadership and governance that underpins a more strategic approach to community engagement, regional development and organisational sustainability

Objective 1.4: Business innovation, efficiency and improved services

Strategy 1.4.1 : Ensure legislative compliance and follow best practice principles in planning and service delivery

Strategy 1.4.2 : Improve the efficiency and productivity of Shire services

Strategy 1.4.3 : Maintain Council's long term financial viability

<u>RISK IMPLICATIONS</u>

Strategic Risk: Inability to deliver levels of service expected by the community.
Control: Current budget and service levels.

<u>COMMUNITY ENGAGEMENT</u>

Engagement will take place in accordance with the Shire's Community Engagement Guidelines.

In accordance with legislative requirements it is proposed to provide local public notice of the proposed rates in the dollar for a period of 21 days and seek public submissions.

Public notification will include the following:-

- Local public notice in the Kimberley Echo on 3 May;
- Local public notice in the May issue of the Bastion Bulletin;
- A copy of the Notice to Impose Differential General Rates and Minimum Payments for 2018/19 placed on the Coles noticeboard on 3 May;
- A copy of the Notice to Impose Differential General Rates and Minimum Payments for 2018/19 placed on the IGA noticeboard on 3 May;
- A copy of the Notice to Impose Differential General Rates and Minimum Payments for 2018/19 placed on the Wyndham Post Office noticeboard on 3 May
- The Shire's Facebook page and website on 3 May;
- Media Release on 3 May;
- A copy of the Notice to Impose Differential General Rates and Minimum Payments for 2018/19, including Council Policy *CP/FIN-3200 Strategic Rating* placed on the Shire's website, public notice boards at the Civic Centres and Libraries in both Kununurra and Wyndham on 3 May.

COMMENTS

The rate setting process is governed by the Council Policy *CP/FIN-3200 Strategic Rating* (Policy). The rate setting formula is essentially a simple one whereby the amount of rates a property pays is determined by applying a rate in the dollar to the value assigned to the property. However, both parts of this equation have variable aspects to them and these are laid out in the Policy.

The Policy allows for the rate in the dollar to be determined on a differential basis. The Shire rates different land uses differently and employs the use of minimum rates. The Shire further has made use of multipliers in prior budget processes for the categories GRV Other Vacant, GRV Commercial and GRV Industrial. Shire Officers have in the past performed rates modelling whereby various scenarios are processed utilising the variables such as the multipliers and a Kimberley loading. The continued use of these variables is discussed below.

In determining the rate yield (amount of rates collected) "natural growth" is one of the first components considered. It is determined by applying the prior year rate in the dollar to the rates base as amended before any general revaluation is factored in. The Shire has had natural growth of 0.54% for the 2017/18 year to date. Any increase to the rate in the dollar will produce a yield in excess of 0.54%. The additional rate income generated by natural growth is generally attributed to providing Shire services that those properties will now use.

The rate setting process requires Officers to determine a rate in the dollar based on the Policy. It is therefore prudent that the Policy is amended at the same time as the proposed rates are approved for community consultation.

The impact of the GRV revaluation on the rate in the dollar and the application of the Policy also needs to be considered especially as it relates to the multipliers. Shire Officers also need to consider surrounding circumstances such as the state of the local economy. We are of the opinion that the local economy remains sluggish and any rate increase must factor this in. Therefore Officers, as for the 2017/18 financial year, are inclined to recommend a moderate rate increase for the 2018/19 year.

Proposed rate in the dollar

While the proposed percentage rate increase in the dollar is generally subject to the most scrutiny, there are other aspects of setting the rate in the dollar that need to be highlighted. It is critical to note that the change to the actual rate in the dollar is only one factor of the rate setting process. Other factors comprise of changes to the rates base. This can be changes to the total number of rateable properties, the mix between each rating category and the change in values placed on properties within each rating category. The changes in property values can happen on an incremental basis or on a periodic basis as part of a general revaluation of municipal properties. It is the combination of these factors that will have to be taken into account in assessing their impact on the rate in the dollar before assessing what increase to apply. The Shire attempts to ensure that the actual dollar value that a ratepayer pays increases as close to the increase percentage as possible.

In this budget process the Shire has to factor in a Gross Rental Value (GRV) municipal revaluation by Landgate as part of the rate setting process. This is the biggest single factor in setting a rate in the dollar for the 2018/19 year. The Shire has been informed in discussions with Landgate that GRV values have decreased significantly across the affected categories. We are led to believe that the residential properties have decreased by approximately 50% and Commercial and Industrial properties by about 30%. Initial modelling has been performed using this data. Once the actual data is received then the final rate in the dollar will be determined. The final rate in the dollar is not expected to materially affect the rate yield.

As the GRV values decreased significantly, in order to maintain the rate yield from each category the rate in the dollar was adjusted in the modelling process to achieve this. For example, if the yield from a property is $800 on a rate in the dollar of 10 cents, then if the GRV on that property halves, in order to preserve the $800 yield the rate in the dollar would double to 20 cents. Therefore a 1.2% increase in rates would mean that the amount paid would increase to $809.60 even though the rate in the dollar to achieve this has changed from 10 cents to 20.24 cents in the dollar. This process works both ways, when GRV's increase across the board as well as when they decrease.

The modelling performed accounted for the changes in the GRV's and modelled various rates scenarios accordingly. A significant impact identified in the modelling was the effect of the GRV revaluation on the application of the multipliers as contained in the Policy. The application of the multipliers are no longer feasible as the relationships between the base rate and the categories to which the multipliers are attached have been disrupted. In order to obtain an equitable result further modelling disregarded the application of the multipliers. The justification for this was that Shire Officers have taken the view that the relative rate burden between the categories is satisfactory at present. As such it is prudent to maintain consistency between the categories by applying the same increase to the rate yield across all the categories.

In deciding the increase to apply to the rate in the dollar there are a number of indicators that can be used in order to ensure objectivity in the process. The most popular one is the Consumer Price Index (CPI). The CPI is an index determined by the Australian Bureau of Statistics that is the rate of change in prices on a basket of goods measured on a quarterly basis. This basket of goods does not generally reflect the components of costs that the Shire incur in delivering our services. This index does however give the Shire an indication of the impact rising prices has on household income and the state of the economy in broad terms. The Perth CPI data for the 2017 calendar year shows an increase of 0.8% for the year. The index for the year ended March 2018 is not expected to vary materially from this amount.

A more accurate measure of the Shire's cost profile is the Local Government Cost Index (LGCI). This index is based on the 'bundle of goods' relating to local government and reflects the proportion of general construction activity in the form of works such as roads, bridges and facilities for recreation and community. The LGCI therefore provides an indication of those changes in costs that relate more closely to function of local government.

The Shire utilises the LGCI forecasts that are in the WALGA Local Government Economic Briefing, published in March of each year. The forecast for the remainder of the 2017/18 year is 1.9%. The Shire raised rates on average by 1.2% in relation to this in last year's budget. This means that on average the purchasing power of funds available for the Shire to continue to maintain current service levels has decreased by 0.7% for the 2017/18 year. The forecast for the 2018/19 financial year is 1.8% increase in LGCI. Where the Shire sets a rate yield increase of less than the LGCI, it will have to find operational savings to ensure current service levels are maintained.

Shire officers have undertaken modelling using various rates. The model that is preferred by Shire Officers is one with a rate increase of 1.2% as this provides additional funds to maintain current service levels but still requires the Shire to examine its cost structure to ensure that it is efficient in the delivery of its services. A 1.2% rate increase will be again below the anticipated increase to the cost of delivering Shire services. This rate is also consistent with the prior year and introduces some certainty and stability into the process.

As discussed earlier, the base rate in the dollar will not be adjusted by the multiplier effect for the GRV Other Vacant, GRV Commercial and GRV Industrial rating categories due to the GRV revaluation. With reference to the Kimberley loading, Shire Officers consider that the base rate already includes the cost of doing business in the Kimberley. To increase the rate increase as well by applying a Kimberley loading to it would in effect be double counting. Shire Officers consider that the rate setting process would be simpler if the Kimberley loading continued to be excluded from the Policy.

The table below is an excerpt of the rating model, the full model demonstrating 1.2% is provided in Attachment 2. This also highlights that with the natural growth of 0.48% and a 1.2% yield increase across all rating categories, the overall rates yield would increase by approximately 1.65% (2017/18 – 2.12%).

The table below also reflects the rate in the dollar along with the average weekly increase if the recommended 1.2% increase if the rate in the dollar is adopted:

Council Policy CP/FIN-3200 Strategic Rating

The major impact on the Policy is that the Shire is required to recognise the change in GRV values arising out of the periodic revaluation of properties done by Landgate for the 2018/19 rating period. The values have decreased significantly but not uniformly across the rating categories. The Policy has in the past utilised multipliers of the base rate to levy higher rates for Commercial and Industrial properties as the Shire considers that these categories consume more services than residential properties do.

Residential properties have reduced by approximately 50% and commercial and industrial by 30%. In order to preserve the rate yield in the residential category the rate in the dollar has effectively doubled. As residential properties determine the base rate, applying the multipliers to commercial and industrial properties that only reduced by 30% would result in disproportionate increase for these categories.

The issue is therefore whether to maintain the multipliers or not. If they are to be maintained then they have to be adjusted to ensure that the Commercial and Industrial rate categories are not penalised more relative to the others. This would introduce manipulation of the multipliers to a factor of less than one. To compound this the multipliers have not been applied as intended for the past two financial years. This problem will present itself on a periodic basis. The process should be a simple one based on the principles set out in the Policy. Shire Officers consider that the relative burden each rating category bears to be reasonable with respect to the base principles and each other. Shire Officers further consider that the relative burden each category has carried has been consistent for a number of years and that this consistency should be preserved. Shire Officers recommend that the Council Policy *CP/FIN-3200 Strategic Rating* be amended to reflect this.

The Council Policy *CP/FIN-3200 Strategic Rating* levies rates based on the land use, zoning or a combination of these. Town Planning Scheme No. 7 Kununurra and Environs, and Town Planning Scheme No. 6 Wyndham Townsite have been utilised to this end in prior years. However, the draft Local Planning Scheme No. 9 is in the process of superseding the old plans. The new Planning Scheme has been examined to assess the impact on the Council Policy *CP/FIN-3200 Strategic Rating* and it is unlikely that it will have a material effect on the setting of the rate in the dollar. Shire Officers consider that the effect on rating categories is cosmetic in the main and the effect on individual properties is not material to the rate setting process.

Differential Rating Category	Proposed Rates Revenue 2018/19 $	Average Rates Payable 2018/19 $	Average weekly increase/decrease compared to 2017/18 $
GRV - Residential	**4,768,065**	**2,839**	**0.48**
GRV - Other Vacant	**181,065**	**2,548**	**2.02**
GRV - Commercial	**1,872,143**	**11,142**	**2.56**
GRV - Industrial	**1,057,403**	**6,204**	**1.30**

UV - Rural Residential	**509,579**	**2,754**	**0.48**
UV - Pastoral	**340,729**	**15,437**	**3.59**
UV - Commercial/ Industrial	**115,318**	**2,210**	**(3.07)**
UV - Rural Agriculture 1	**716,607**	**8,833**	**(0.92)**
UV - Rural Agriculture 2	**346,984**	**3,183**	**0.60**
UV - Mining	**517,942**	**12,995**	**5.00**
UV - Mining Exploration and Prospecting	**60,241**	**2,226**	**0.62**
UV - Other	**56,265**	**18,755**	**5.46**
TOTALS	**10,542,341**		

Other Factors

In prior years the increase applied to the rate in the dollar was further increased by what was termed a "Kimberley loading" of approximately 70%. This was applied on top of the percentage increase in recognition that it is more expensive for the Shire to operate in the Kimberley in comparison to the main metropolitan areas and that the LGCI is not a regionalised index. In 2016/17 and 2017/18 this loading was not applied as a concession in recognition of the downturn in the local economy. After some consideration Shire Officers consider that the rate in the dollar already incorporates a loading for doing business in the Kimberley. Applying a loading factor to the intended increase percentage will in essence be double counting. Once more in order to ensure that the rating process is a simple one any increase must be substantiated on its own merits and not subject to subjective adjustments. Consequently Shire Officers do not intend to apply a Kimberley loading.

Shire Officers do recognise that the Shire does have relatively high rates. Some of the factors that lead to having higher rates are unavoidable. However, the Shire needs to continue to address the cost of service delivery aspects of the operation thoroughly to ensure that rate increases continue to be moderate. Matters that are being addressed include officers compiling detailed forward capital works programs to determine the timing and extent of funds needed to renew our asset base. The Shire also needs to establish and document the services that the community value, the service levels required and the cost of providing those services. The financial strategies as set out in the Long Term Financial Plan are being implemented to ensure that the Shire progresses to a sustainable and consistently moderately rating Shire.

Summary

The rating model that is proposed considers a range of factors in determining the rate in the dollar. The revenue that the proposed rate in the dollar will raise will be sufficient for the Shire to meet its statutory obligations and maintain Shire services at current service levels.

Shire Officers further consider that an average rate yield increase of 1.2% is consistent and reasonable in the circumstances.

ATTACHMENTS

Attachment 1 - Council Policy *CP/FIN-3200 Strategic Rating* - Track Changes
Attachment 2 - Rating Model 2018/19 - 1.2% Increase