

**5.3.5 LATE ITEM: Differential Rating Strategy 2015/16**

<b>Ward:</b>	Both	<b>Date:</b>	24 April 2015
<b>Precinct:</b>	All	<b>File Ref:</b>	SC245
<b>Attachments:</b>	<a href="#">1</a> – Draft Budget Commentary <a href="#">2</a> – Rate Setting Statement		
<b>Tabled Items:</b>	-		
<b>Reporting Officer:</b>	J Paton, Director Corporate Services		
<b>Responsible Officer:</b>	J Paton, Director Corporate Services		

**OFFICER RECOMMENDATION:**

**That Council:**

- APPROVES advertising by local notice, in accordance with Section 6.36(1) of the *Local Government Act 1995* its intention to levy the following Differential Rates and Minimum Rates in 2015/16 to include an invitation for submissions on the proposal from electors and ratepayers for a period of 21 days:**

	2015/16	
Rating Category	Rate-in-\$	Minimum
Residential	0.05951	\$907
Commercial Vacant	0.11578	\$1,414
Other	<del>0.06223</del> 0.06281	\$907

- NOTES any public submissions received in response to the invitation will be presented to Council for consideration.**

**PURPOSE OF REPORT:**

To obtain approval to advertise the Differential Rates and Minimum Rates proposed for inclusion in the 2015/16 Annual Budget.

**BACKGROUND:**

Between 1 June and 31 August each year, local governments are required to prepare and adopt a budget for the financial year. A key part of the budget development is identifying the 'budget deficiency' to be made up from levying of Council Rates. Once an estimate of that budget deficiency is known, local governments are required to give local public notice of any intention to levy differential rates.

The budget deficiency is determined only after all other financial elements are taken into account including:

- opening balance
- operating income
- operating expenditure
- non-operating income (grants, sale of assets etc.)
- debt servicing
- capital expenditure
- transfers to and from Reserves

In preparing the Draft Budget, Administration has compiled relevant information and held two budget workshops with Council Members. Whilst work is ongoing to refine the Draft Budget, it has progressed to a point where an estimate can be determined of the amount required to be raised from Rates.

Whilst this report will primarily deal with the Rating strategy, with the Draft Budget to be presented to a subsequent Council Meeting, it is appropriate to provide budgetary context, in respect to past financial performance, sustainability factors, strategic directions and 2015/16 budget provisions/demands.

To assist in establishing context, **Attachment 1** provides a comprehensive Draft Budget Commentary. In respect to specific budget components, the following reflects current planning for the Draft Budget:

Operating Result:

	2012/13	2013/14	2014/15			2015/16
	Audited Actual	Audited Actual	Adopted Budget	Revised Budget	Forecast	Draft Budget
<b>REVENUE</b>						
Rates	23,825,952	25,362,390	26,909,021	27,302,021	27,397,888	29,063,813
Operating Grants, Subsidies and Contributions	1,567,459	1,435,384	2,473,885	1,493,840	1,530,340	1,565,895
Fees and Charges	15,304,231	19,187,447	20,337,630	20,747,640	19,791,157	20,986,415
Interest earnings	1,243,366	897,486	854,120	854,120	959,100	785,980
Other Revenue	3,590,513	1,099,417	163,975	1,144,020	1,187,356	1,128,305
	<b>45,531,521</b>	<b>47,982,124</b>	<b>50,738,631</b>	<b>51,541,641</b>	<b>50,865,841</b>	<b>53,530,408</b>
<b>EXPENDITURE</b>						
Employee Costs	(20,737,967)	(22,996,728)	(19,008,330)	(23,097,796)	(23,555,204)	(24,732,560)
Materials and Contracts	(14,495,855)	(14,385,556)	(15,054,925)	(15,348,526)	(13,977,328)	(15,634,912)
Utility Charges	(1,983,195)	(2,176,874)	(1,914,770)	(1,914,770)	(1,950,000)	(1,946,150)
Depreciation on Non-Current Assets	(8,906,059)	(11,760,170)	(8,566,790)	(11,223,490)	(11,223,490)	(11,144,595)
Interest Expenses	(1,199,652)	(1,145,812)	(1,096,580)	(1,096,580)	(1,096,580)	(991,375)
Insurance Expenses	(794,498)	(878,414)	(915,330)	(1,136,305)	(1,165,332)	(1,009,145)
Other Expenditure	1,204,412	(449,720)	(4,972,685)	(906,219)	(247,639)	(302,440)
	<b>(46,912,814)</b>	<b>(53,793,274)</b>	<b>(51,529,410)</b>	<b>(54,723,686)</b>	<b>(53,215,573)</b>	<b>(55,761,177)</b>
<b>OPERATING RESULT</b>	<b>(1,381,293)</b>	<b>(5,811,150)</b>	<b>(790,779)</b>	<b>(3,182,045)</b>	<b>(2,349,732)</b>	<b>(2,230,769)</b>

Capital Works:

The Draft Capital Works program, still under review, lists the following category of projects:

Category	Total	New	Upgrade	Renewal
Land & Buildings	2,081,876	18,600	1,343,300	719,976
Plant and Equipment	1,625,400	189,400	95,000	1,341,000
Infrastructure Assets	5,455,658	2,324,500	849,000	2,282,158
Furniture and Equipment	364,800	0	0	364,800
	<b>9,527,734</b>	<b>2,532,500</b>	<b>2,287,300</b>	<b>4,707,934</b>

Funding for the program is being sourced from:

Grant	\$1,462,428
Reserves	\$1,784,300
Municipal	\$7,316,677
<b>TOTAL</b>	<b>\$6,281,006</b>

Based on the current estimates being presented through the drafting process for the new budget, a draft Rate Setting Statement has been compiled (**Attachment 2**) which identifies that the budget deficiency for 2015/16 in the order of \$29.06 million. This represents an increase of approximately 6% on the City's rate revenue of \$27.4 million in 2014/15.

In order to determine the most effective and equitable manner to generate the estimated rates required in 2015/16, Administration has undertaken a review of the differential rating system.

**DETAILS:**

In developing an equitable rating model, it is useful to undertake a comparison with other metropolitan local governments. The following table details how the rate in the dollar and waste collection charges (where they are applied separately) impact on the rate levied on an individual residential property at a nominated Gross Rental Value (GRV) of \$21,000.

<b>(Sorted by Total Account of GRV \$21,000)</b>							
<b>Municipality</b>	<b>Residential</b>	<b>General</b>	<b>Residential</b>	<b>Other</b>	<b>Rate levied</b>	<b>Variation</b>	<b>Minimum</b>
	<b>Rate</b>	<b>Minimum</b>	<b>Rubbish</b>	<b>Charges</b>	<b>on GRV</b>		<b>per</b>
	<b>(Cents)</b>				<b>\$21,000</b>		<b>assessment</b>
<i>Perth</i>	4.22	654	197		\$1,083.20	-10.90%	\$851.00
<i>Cottesloe</i>	5.26	1008			\$1,104.60	-9.10%	\$1,008.00
<i>Canning</i>	3.734	621	344	51.9	\$1,128.14	-7.20%	\$965.00
<b><i>Vincent</i></b>	<b>5.789</b>	<b>707</b>			<b>\$1,215.69</b>	<b>0.00%</b>	\$707.00
<i>East Fremantle</i>	5.8277	881			\$1,223.82	0.70%	\$881.00
<i>Belmont</i>	4.46	775	293.3		\$1,229.90	1.20%	\$1,068.30
<i>Melville</i>	5.885	1160		52.7	\$1,235.85	1.70%	\$1,160.00
<i>Stirling</i>	4.478	790	301	29	\$1,241.31	2.10%	\$1,090.93
<i>Claremont</i>	5.53	1250			\$1,250.00	2.80%	\$1,250.00
<i>Fremantle</i>	6.0709	1164			\$1,274.89	4.90%	\$1,164.00
<i>Nedlands</i>	4.45	1288	293		\$1,288.00	5.90%	\$1,581.00
<i>Bayswater</i>	4.776	767	307.3		\$1,310.26	7.80%	\$1,074.30
<i>Cockburn</i>	4.303	683	435	65	\$1,338.63	10.10%	\$1,118.00
<i>Joondalup</i>	4.9903	797	346		\$1,393.96	14.70%	\$1,143.00
<i>Victoria Park</i>	6.86	1030			\$1,440.60	18.50%	\$1,030.00
<i>Mosman Park</i>	5.4458	820	310		\$1,453.62	19.60%	\$1,130.00
<i>Peppermint Grove</i>	6.946	1225			\$1,458.66	20.00%	\$1,225.00
<i>Gosnells</i>	5.675	875	267		\$1,458.75	20.00%	\$1,142.00
<i>Wanneroo</i>	7.1662	1205			\$1,504.90	23.80%	\$1,205.00
<i>South Perth</i>	6.07	875	252		\$1,526.70	25.60%	\$1,127.00
<i>Subiaco</i>	5.1	746	474		\$1,545.00	27.10%	\$1,220.00
<i>Kalamunda</i>	5.2858	800	460		\$1,570.02	29.10%	\$1,260.00
<i>Rockingham</i>	5.937	949	345	34.25	\$1,591.77	30.90%	\$1,294.00
<i>Bassendean</i>	6.113	987	320		\$1,603.73	31.90%	\$1,307.00
<i>Swan</i>	6.355	845	358	150	\$1,692.55	39.20%	\$1,203.00
<i>Cambridge</i>	5.6899	910	500		\$1,694.87	39.40%	\$1,410.00
<i>Kwinana</i>	6.85	885	310		\$1,748.50	43.80%	\$1,195.00
<i>Mundaring</i>	7.2459	724	279		\$1,800.64	48.10%	\$1,003.00
<i>Armadale</i>	7.627	1030	308		\$1,909.67	57.10%	\$1,338.00

In a Residential rating context, the above table clearly demonstrates the City of Vincent:

1. has the lowest Minimum Rate in the metropolitan area when the Waste Collection charge is factored in; and
2. has the fourth lowest rates of the 29 local governments listed.

In terms of Commercial/Industrial properties, the City of Vincent's rates (which were levied the same rate in the dollar as Residential) are then the third lowest behind Belmont and Canning.

The balance between the rate in the dollar and level of Minimum rate is important in establishing equity and ensuring an optimum level of revenue from a nominated rating level.

The Minimum Rate in Vincent is clearly out of proportion to other local governments, with the average minimum rate paid for residential properties across the metropolitan area in 2014/15 being \$1,143 (Minimum Rate plus Waste Collection charge) compared to the \$707 at the City of Vincent, which includes the waste collection charge. Commercial Minimum Rates average \$1,171 across the Metropolitan area.

It is proposed that in order to establish an effective and equitable rates system, structural changes are required to the City's Differential Rating System. These proposed changes involve:

1. Differentially rating Residential from other categories of land use, such as Commercial; and
2. Ensuring all properties are equitably contributing to the services provided by the City, through implementation of an appropriately set Minimum Rate.

It is noted that the triennial GRV revaluation was implemented in 2014/15 and this had a significant impact on the level of rates levied on Residential properties compared to Commercial properties, assessed as an average across each category. Splitting the Residential properties from other rating categories enables strategic decisions on rate distribution, without the influence of changes in valuations between land use or zoning types.

It is therefore proposed to establish the following Differential rates:

- Residential
- Commercial Vacant
- Other

In order to establish a differential between the Residential and Other categories, it is proposed to increase the Residential rate in the dollar by 2.8%, with the rate in the dollar for the other category being set above Residential. The Commercial Vacant category was established in 2014/15 and already experiences a differential significantly above the other two categories, so it is proposed that rate in the dollar remain the same.

Each category will also have a separate Minimum Rate applicable. Given the disproportionately low level that the Minimum Rate has been set in Vincent, it is recognised that achieving an optimum level consistent with the industry average will need to be phased in over successive years. However, it is considered to be inequitably low currently, particularly when the cost of the rubbish service alone is estimated at \$325 per property and this is likely to increase in 2015/16 to \$350 with proposed increases to disposal costs. In view of this it is considered an initial step increase is warranted.

The following table outlines the proposed rates in the dollar and minimum rates for 2015/16.

Rating Category	2014/15		2015/16		% Increase	
	Rate-in-\$	Minimum	Rate-in-\$	Minimum	Rate-in-\$	Minimum
General	0.05789	\$707				
Commercial Vacant	0.11578	\$1,414	0.11578	\$1,414	0.0%	0.0%
Residential	As for General		0.05951	\$907	2.8%	28.3%
Other	As for General		<del>0.06223</del> 0.06281	\$907	<del>7.5%</del> 8.5%	28.3%

**LEGAL/POLICY:**

The following clauses from the *Local Government Act 1995* are relevant to the levying of Differential Rates, Minimum Rates and the requirement to publish a Local Notice.

**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, whether or not under a local planning scheme or improvement scheme in force under the Planning and Development Act 2005; or*
  - (b) *a purpose for which the land is held or used as determined by the local government; or*
  - (c) *whether or not the land is vacant land; or*
  - (d) *any other characteristic or combination of characteristics prescribed.*

**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.*

**6.36. Local government to give notice of certain rates**

- (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; and*

- (b) *is to contain –*
  - (i) *details of each rate or minimum payment the local government intends to impose; and*
  - (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.*

**STRATEGIC IMPLICATIONS:**

Council's budget process is in accordance with Council's Strategic Community Plan 2013-2023 and Corporate Business Plan 2013-2017, Objective "4. Leadership, Governance and Management":

*"4.1.2 Manage the organisation in a responsible, efficient and accountable manner"*

*"4.1.4 Plan effectively for the future":*

**SUSTAINABILITY IMPLICATIONS:**

Whilst the City receives the benefit of capital proceeds from its share in the Tamala Park Regional Council, true sustainability is achieved through balanced operations. This requires a long term focus and consistent results.

Achieving an effective rating strategy is an important part of the City's overall pricing policy, which will progressively enable the City to meet all its operational obligations, including asset renewal to ensure the current standard of service can be maintained for future generations.

**FINANCIAL/BUDGET IMPLICATIONS:**

The advertising of the proposed Differential Rating System is critical in the development process of the annual budget. The level of rates generation is linked to the delivery of service and level of funding for capital works, debt servicing and consolidation of Reserve funds.

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## COMMENTS:

The proposed changes to the Differential Rating System and nominated rates in the dollar and Minimum Rates is considered to be a strategic step in establishing a more consistent and sustainable financial approach.

An assessment of the impact of the proposed rate changes on respective rate categories has been undertaken, which has also considered the impact over a two year period, given the experience in 2014/15 arising from the GRV revaluation. The following information is considered relevant.

### Residential

A 2.8% increase is likely to be one of the lower rate increases amongst local governments, however it is clear that the substantial impact will be experienced by those ratepayers who have enjoyed being on or near the previous minimum rate.

Increasing the Residential Minimum Rate from \$707 to \$907, will increase the number of Residential assessments (properties) on the Minimum Rate from 862 in 2014/15 to 2,054. The maximum increase that any Minimum Rated assessment will realise over a two year period from 2013/14 is \$226. 192 of all Minimum Rated Assessments are Vacant Residential.

Of the 2,054 assessments proposed to be on the Minimum Rate of \$907:

- 682 (33.2%) will increase by the maximum of \$226 from 2013/14;
- 782 (38.1%) will increase by between \$120.00 and \$225.00 from 2013/14 (at an average of \$177.95);
- 372 (18.1%) will increase by between \$4.65 and \$109.57 from 2013/14 (at an average of 51.21);
- 163 (7.9%) will decrease by between \$2.35 and \$422.05 from 2013/14 (at an average of \$127.23); and
- 55 (2.7%) are new Assessments created by Interim and therefore were not rated separately in 2013/14.

With the possible exception of the City of Perth, it is likely that Vincent's Minimum Rate of \$907 will remain the lowest in the metropolitan area in 2015/16.

### Other

Creating a new differential for "Other" Assessments, will essentially create a Commercial/Industrial Differential Rate.

All non-minimum assessments levied on the Other differential rate will increase from 2014/15 by 8.5%. Actual dollar values will range from approximately ~~\$95~~ \$72 to ~~\$13,000~~ \$14,277, with these dollar value increases being directly related to their individual GRV.

In 2015/16, there will be ~~4,445~~ 1,598 Assessments on the Other differential non-minimum rate. Due to the reduction in the Rate in dollar in 2014/15 (to offset the general valuation increase from the GRV revaluation) and despite the 8.5% increase proposed for 2015/16, ~~38%~~ 40% of these Assessments will realise a decrease in the dollar value of rates levied between 2013/14 to 2015/16. These decreases will range from ~~\$0.45~~ \$0.98 to ~~\$6,800~~ \$6,200 at an average of approximately ~~\$250~~ \$148, with the amount directly related to their GRV.

Furthermore, approximately 73% of the balance (43% overall) will increase over the two year period by less than a combined ~~6%~~ 5%. This means that approximately ~~80%~~ 83% of all Assessments moving to the new Other Differential Category will realise either a decrease or an increase of less than ~~6%~~ 5% from their 2013/14 Rates. Only 8.1% will increase by more than 8.5% from 2013/14. (Their GRV increased by more than 20% in the 14/15 revaluation)

### **Other Minimum**

Increasing the Minimum Rate for these classes from \$707 to \$907 will increase the number of Other Assessments on the Minimum Rate from 52 in 2014/15 to ~~78~~ 74 in 2015/16. These 52 assessments will increase by the full \$200 from the minimum rate they shared with residential properties in 2014/15. ~~The other 26 assessments will increase from between \$1 and \$64.~~

~~However, the two year impact for 30 of the properties will be an overall increase of between \$216 through to a reduction of \$2 as their rates actually went down between 2013/14 and 2014/15.~~

All of the 22 Assessments now moving to the 2015/16 Minimum Rate were above the Minimum Rate amount in 2013/14 and 2014/15. 19 of these Assessments will realise increases of between \$15.84 and \$161.33 from 2013/14. The 2015/16 increases for these Assessments ranges from \$79.17 to \$199.58. Three of these Assessments will realise a \$2.35 decrease from 2013/14. The 2015/16 increase for these Assessments is \$79.17.

### **Local Notice**

Local governments are required to give notice of an intention to levy Differential rates by publishing a notice in a newspaper circulating in the district. The notice is to include an invitation for submissions to be made by electors or ratepayers in respect to the proposed rates or minimums.

Council is to consider any submission before imposing the proposed differential rates and minimums. It should be noted however, that Council is not restricted to impose what was advertised, but can modify the rates as required.

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