Objective

Section 2.7 of the *Local Government Act 1995* states:

> *"Role of council*
>
> *(1) The council —*
>
> *(a) governs the local government's affairs; and*
>
> *(b) is responsible for the performance of the local government's functions.*
>
> *(2) Without limiting subsection (1), the council is to —*
>
> *(a) oversee the allocation of the local government's finances and resources; and*
>
> *(b) determine the local government's policies."*

Further, Section 1.3 (3) states that:

> *"In carrying out its functions a local government is to use its best endeavours to meet the needs of current and future generations through an integration of environmental protection, social advancement and economic prosperity."*

Financial Sustainability

The Operating Surplus Ratio has remained under the Department of Local Government's standard for the past 5 years as indicated in the table below:

Financial Year Ended 30 June	2021	2020	2019	2018	2017
Operating Surplus Ratio	(0.11)	(0.05)	(0.05)	(0.10)	0.00

More specifically the most recent Audit Report from the Office of the Auditor General states that:

> *In my Opinion, the following material matter indicates a significant adverse trend in the financial position of the Shire:*
>
> *a. The Operating Surplus Ratio as reported in Note 34 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries basic standard for the past three financial years.*

Council has been systematically attempting to reduce annual cash expenditure in an attempt to address this issue by containing operating cash costs to an increase of 3.8% over the past 4 years despite servicing 11.4% more properties within the Shire of Serpentine Jarrahdale.

Pleasingly, this measure has seen the Shire's Financial Health Indicator as published by the My Council Website rise from 53 in 2013/2014 to 72 in 2019/2020. Unfortunately this measure has not been enough to address the issue articulated by the Auditor General.

To sufficiently address this issue, the Shire's operating revenue will need to rise by at least $3.4 million dollars or conversely operating costs would need to fall by a similar margin.

Council now deems the commensurate decline in levels of service that would result from further cutting cash operating costs which presents an unacceptable risk to the responsible performance of the local government's functions.

Additionally, in 2020, Council commissioned the Western Australian Treasury Corporation to report on the financial sustainability of the Shire. This report found that the Shire showed a deficit position of approximately $1,800,000 per annum which would need to be spent on Asset Renewal.

Rating Equity

It has come to Council's attention that rates are not being imposed in an equitable manner upon the residents of the district.

This is an important concept in taxation. The Department of Local Government's Guidelines on Changing Rating Methodology states that rating principles should be applied fairly and equitably.

Each property should make a fair contribution to rates based on a method of valuation that appropriately reflects predominant use.

With the changing nature of land use within the Shire of Serpentine Jarrahdale it has become evident that a significant number of residential properties are still being rated as though they are used for a rural purpose.

The effect of this is that some of the Shire's largest and most expensive residential properties pay significantly less rates than residents on smaller more modestly valued properties.

Council now deems that in making its best endeavours to meet the needs of current and future generations through an integration of environmental protection, social advancement and economic prosperity, it should take measures to ensure that rates are imposed equitably within the municipality.

Strategic Response

Strategy One - Ensure correct valuation method is applied

The Shire of Serpentine Jarrahdale has two valuation options for the levying of rates, being either the Unimproved Value (UV) or the Gross Rental Valuation (GRV).

It is not the Shire that determines the valuation methodology used to raise rates.

Specifically, the *Local Government Act 1995* states:

6.28. Basis of rates

(2) In determining the method of valuation of land to be used by a local government the Minister is to have regard to the general principle that the basis for a rate on any land is to be —

(a) where the land is used predominantly for rural purposes, the unimproved value of the land; and

(b) where the land is used predominantly for non-rural purposes, the gross rental value of the land.

Therefore, the Shire should continue to work closely with the Ministers Office to ensure that all properties are rated using the correct valuation methodology.

Strategy Two – Maintain Differential Rating

The Shire currently utilises differential rating to meet its equity and financial sustainability obligations.

As the process of changing the valuation methodology is onerous and time consuming, sometimes properties can exist for a long time with an incorrect valuation method.

These shortcomings of the current system make it very difficult to accurately ensure that rates are levied on a method of valuation that appropriately reflects predominant use.

The use of a differential rating system can go some way towards ameliorating the abovementioned issues.

The Shire will impose the following Differential Rating Categories.

GRV Residential

Object: This category covers all improved non-rural properties used for residential purpose.

Reason: The Shire's rating strategy is to achieve rate revenue that meets the shortfall from other revenue sources and allows for the delivery of services and the creation of infrastructure. The Shire desires to levy rates that are more equitable across different types of properties and thus has implemented differential rates.

GRV Vacant

Object: This category covers all non-rural vacant properties.

Reason: Council has adopted a deliberate policy objective to discourage property owners from land banking.

GRV Commercial / Industrial

Object: This category covers all improved non-rural properties that are not vacant and are used for a purpose other than residential.

Reason: The Shire's rating strategy is to achieve rate revenue that meets the shortfall from other revenue sources and allows for the delivery of services and the creation of infrastructure. The Shire desires to levy rates that are more equitable across different types of properties and thus has implemented differential rates.

UV General

Object: This category covers all rural properties not covered by another rating category.

Reason: The Shire's rating strategy is to achieve rate revenue that meets the shortfall from other revenue sources and allows for the delivery of services and the creation of infrastructure. The Shire desires to levy rates that are more equitable across different types of properties and thus has implemented differential rates.

UV Rural Residential

Object: This category covers all rural properties less than or equal to 50,000sqm whose predominant use is Residential.

Reason: The Shire's rating strategy is to achieve rate revenue that meets the shortfall from other revenue sources and allows for the delivery of services and the creation of infrastructure. The Shire desires to levy rates that are more equitable across different types of properties and thus has implemented differential rates.

UV Commercial / Industrial

Object: This category covers all rural properties used predominantly for commercial / industrial purpose, excluding those used for intensive agriculture.

Reason: The Shire's rating strategy is to achieve rate revenue that meets the shortfall from other revenue sources and allows for the delivery of services and the creation of infrastructure. The Shire desires to levy rates that are more equitable across different types of properties and thus has implemented differential rates.

UV Intensive Farming

Object: This category covers all rural properties used for intensive agriculture (e.g. poultry farms and feed lots).

Reason: The Shire's rating strategy is to achieve rate revenue that meets the shortfall from other revenue sources and allows for the delivery of services and the creation of infrastructure. The Shire desires to levy rates that are more equitable across different types of properties and thus has implemented differential rates.

Strategy 3 – Rural Valuation Review

In an effort to ameliorate any inequity caused by maintaining a differential rating system, the Shire will conduct a “Rural Valuation Review” of UV Rural Residential and UV Commercial / Industrial rated properties each year.

The effect of the Rural Valuation Review is to identify any property found to be liable for a lesser rate amount if they were rated on a GRV rating methodology, that would benefit from a change of valuation methodology that are determined by Officers to be likely not to have another near to medium term review event forecast.

An example of properties expected to experience a near to medium term review event are likely to be in close proximity to the development fronts occurring in Byford, Cardup and Mundijong and will be required to have their valuation method reviewed upon subdivision occurring.

Officers are to conduct a change of valuation methodology process in keeping with the Ministers Rating policy – Valuation of Land, for all properties identified in the Rural Valuation Review.