

Ordinary Council Meeting 19 June 2023 - 11.1 – Urgent Business - Differential General Rates and Minimum Payments (SJ3909)

11.1 - Differential General Rates and Minimum Payments (SJ3909)	
Responsible Officer:	Manager Finance
Senior Officer:	Director Corporate Services
Disclosure of Officer's Interest:	No Officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

Authority / Discretion

Executive	The substantial direction setting and oversight role of the Council such as adopting plans and reports, accepting tenders, directing operations and setting and amending budgets.
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Report Purpose

The purpose of the report is for Council to consider a proposal for the setting of the rate in the dollar for the differential rating categories, to be applied to the proposed Budget for the 2023/2024 financial year and advertised in accordance with Section 6.36 of the *Local Government Act 1995* for 21 days.

Relevant Previous Decisions of Council

There is no previous Council decision relating to this matter.

Background

The Shire's Strategic Community Plan articulates the vision for the Shire with the Corporate Business Plan describing how that vision will be achieved over the next four years. The Annual Budget describes how services and infrastructure will be funded for the next year, with the Long Term Financial Plan setting out the financial plan for the next ten years.

The adoption of the Annual Budget is expected to be considered at a Special Council Meeting on 26 July 2023.

Rate revenue is a substantial source of revenue for the Shire of Serpentine Jarrahdale, accounting for approximately two thirds of operating revenue in the 2022/2023 Budget. The *Local Government Act 1995* (the Act) empowers local governments to impose general rates and minimum payments on rateable land. Local governments can impose either uniform general rates or differential general rates.

Uniform general rates set a single general rate in the dollar for each valuation category of either Gross Rental Value (GRV) and Unimproved Value (UV)) being a uniform general rate in the valuation dollar and applied to all properties within a valuation category.

As an alternative to adopting a uniform general rate, a local government may apply different rates in the dollar within each valuation category known as a differential general rate which may be applied using the following characteristics, or combination thereof:

- The purpose for which the land is zoned;
- The predominant use (as determined by the Local Government);
- If the land is vacant or not; and

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- Any characteristics prescribed (currently only relevant to amalgamations).

The Shire of Serpentine Jarrahdale has traditionally adopted differential general rates.

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, Corporate Business Plan, Long Term Financial Plan (LTFP) and the Annual Budget, ensuring to fund these requirements in an equitable way, in accordance with the Shire's rating strategy.

Community / Stakeholder Consultation

The Shire, in accordance with Section 6.36 of the *Local Government Act 1995*, is required to give notice of certain rates and invite submissions for a period of 21 days or such longer period as specified in the notice.

The Shire is required to prepare a document describing the objects of, and reasons for, each proposed rate and minimum payment and to publish the document on the Shire's official website – refer **attachment 1**.

The Shire is required to consider any submissions received before imposing the proposed rate or minimum payment with or without modification.

Workshops were held on 25 May 2023, 1 June 2023, 7 June 2023 and 15 June 2023 with Council to discuss the proposed Rates, Long Term Financial Plan, Fees and Charges, Capital and Non-Recurrent expenditure and operating budgets.

Statutory Environment

Part 6, Division 6 of the Act and Part 5 of the *Local Government (Financial Management) Regulations 1996* provides the head of power for the levying of local government rates. The legislation is quite prescriptive in its application, with the following aspects of particular note:

- Except as provided for in Section 6.26, all land within a district is rateable land (s6.26).
- In order to make up the "budget deficiency" a local government is to impose a general rate which may be imposed uniformly or differentially. A local government may also impose a specified area rate, a minimum rate and a service charge (s6.32).
- A local government may impose a differential general rate according to land zoning, land use, whether the land is vacant or not, or a combination of each characteristic (s6.33).
- No differential general rate in each category (UV or GRV) is to be more than twice the lowest differential general rate, unless approved by the Minister (s6.33(3)).
- The local government can impose differential minimum rates however, it is not to be applied to more than 50% of the properties within a district or within each category (s6.35).

Comment

Economic Environment

The Australian Bureau of Statistics (ABS) has reported that the Consumer Price Index (CPI) in Perth has risen by 5.8% between March 2022 and March 2023. The Shire has not been immune to the impact of these rising costs, witnessing price increases in various areas including but not limited to insurance expenses, cleaning contracts, fuel costs, waste charges and refuse collection.

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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 and is deteriorating:

Financial Year Ended 30 June	2022	2021	2020	2019	2018
Operating Surplus Ratio	(0.12)	(0.011)	(0.05)	(0.05)	(0.10)

Council has been systematically attempting to reduce annual cash expenditure in an attempt to address this issue. To sufficiently address this issue, the Shire's operating revenue needs to rise by at least \$4 million, or conversely operating costs need to fall by a similar margin.

The Shire's financial sustainability is currently a strategic risk on the Shire's strategic risk register. A key control to keep this at an appropriate level of risk in accordance with Council's risk appetite include following Council's adopted Rating Strategy as contained in **attachment 2**. Varying from implementing this key control is likely to raise the current risk level related to financial sustainability.

Rating Strategy

In 2020 Council identified significant inequity in the application of rates within the district, an initial attempt to correct this inequity via a large scale "Change of Valuation Methodology" project was met with the then Minister for Local Government who requested it be discontinued due to the Covid-19 pandemic.

In 2021 Council adopted its first ever Rating Strategy which called for the reinstatement of a Residential and Commercial Unimproved Valuation Differential Rating Category which was subsequently implemented for the 2021/22 Budget. This resulted in the rates for over 8,000 residents declining for that financial year.

In 2022, after a review of the method of valuation used for rating purposes requested the Chief Executive Officer submit an application to the Minister for determination pursuant to Section 6.28 (1) of the *Local Government Act 1995*, to change the method of valuation of land to be used by a local government as the basis for a rate for 640 properties from Unimproved Value (UV) to Gross Rental Value (GRV) as the predominant use of the land for these properties had been determined to be non-rural and would experience a rate reduction if they were rated GRV.

Officers propose to revise the Rating Strategy, amending the Differential Rates and Minimum Payments by eliminating the GRV Vacant rate category. After careful consideration, it has been determined that the original objective of the GRV Vacant rate category, which aimed to discourage property owners from land banking, was not achieved. Only around half of the ratepayers were being penalised by being placed in this category. Additionally, the Shire has received several complaints throughout the year citing the ratepayers have no control over the speed of development on their vacant land due to shortages in construction, labour and materials. To address these concerns, Officers propose to merge the GRV Vacant rate category with GRV Residential as contained in **attachment 2**. This amalgamation will help resolve these identified issues.

Following the implementation of the valuation method review, which resulted in the transfer of 640 properties from the UV Rural rate category to GRV, the remaining properties in the Rural UV category will experience an amplified rate burden. Each property is expected to bear an average additional approximate cost of \$89 before the 5.8% proposed rate rise. This change is due to the fact that the value of rates collected within this category is now divided among a reduced number of properties.

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Throughout the next financial year, Officers will continue to identify properties that could benefit from a change of valuation methodology and are determined not to be likely to have another near to medium term review event forecast. It is estimated that approximately 385 properties will experience a favourable outcome due to this adjustment in the forthcoming financial year.

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.

Budget Breakfast

The 22/23 Draft Budget Breakfast which occurred during last year's advertising period of differential rates, was attended by over 65 people. Officers believe that it was a useful event to communicate priorities in the draft Budget, provide rationale for capital and operating projects and answer questions from the community.

Officers recommend holding a 23/24 Draft Budget Breakfast during the advertising period for differential rates this year. This will aim to achieve the same objectives as last year's event and continue to improve the Shire's communication and transparency within the community.

The budget for the event would be approximately \$2,500 and would cater for an estimated attendance of up to 80 people. Officers envisage a similar format and arrangement to last year should Council wish to undertake the event.

Differential Rates

To address the budget deficit workshopped with Council, and to maintain financial sustainability Officers recommend a:

- 5.8% increase in the minimum rates and the general rate in the dollar for all differential rating categories.

The proposed rates will yield \$29,302,382 in net rate revenue, representing a 5.8% increase on current year to date base rate calculations. These rates are designed to ensure that the Shire can maintain its regular operations and deliver agreed expected outcomes in the next financial year.

Following four council budget workshops, Councilors have identified areas of savings in operating expenditure, these savings representing a more modest 4% increase in comparison to the base rate calculations for the current year to date. The proposed rates will yield \$28,805,296 in net revenue.

This will be presented as option 2 to this report.

Should Council choose option 2 as preferred it should be noted that this will have a flow on effect to all subsequent financial years within the Long Term Financial Plan. Reducing each years revenue by \$497 086 compounding each subsequent year. This will have a long term impact on the financial sustainability of the Shire.

2023/2024 Budget Proposal

The following are the proposed Differential General Rates and Minimum Payments for the Shire of Serpentine Jarrahdale for the 2023/2024 financial year, to be effective from 1 July 2023, which represents a 5.8% increase:

Rate Category	Rate in Dollar (Expressed as cents in \$)	Minimum Payment
GRV Residential	0.091427	\$1,401
GRV Commercial / Industrial	0.146226	\$1,591

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UV General	0.004190	\$1,534
UV Rural Residential	0.004882	\$2,022
UV Commercial / Industrial	0.007127	\$2,129
UV Intensive Farmland	0.008380	\$3,068

The objects and reasons for each of the rating categories is articulated in **attachment 1**.

Options and Implications

Option 1

That Council:

1. ENDORSES a total rate yield for 2023/2024 budget purposes, which will derive a proposed \$29,302,382 in net rate revenue.
2. ENDORSES for the purpose of advertising the following proposed Differential Categories, Rates and Minimum Payments for the Shire of Serpentine Jarrahdale for the 2023/24 rating year:

Rate Category	Rate in Dollar (Expressed as cents in \$)	Minimum Payment
GRV Residential	0.091427	\$1,401
GRV Commercial / Industrial	0.146226	\$1,591
UV General	0.004190	\$1,534
UV Rural Residential	0.004882	\$2,022
UV Commercial / Industrial	0.007127	\$2,129
UV Intensive Farmland	0.008380	\$3,068

3. AUTHORISES the Chief Executive Officer to advertise for public comment, the Differential General Rates and the Minimum Payments Statement of Objects and Reasons in **attachment 1**, as per the requirements of section 6.36 of the *Local Government Act 1995*.
4. ADOPTS the proposed amendment to the Rating Strategy by eliminating the GRV Vacant rate category as per **attachment 2**.
5. REQUESTS the Chief Executive Officer arrange a 23/24 Draft Budget Breakfast to occur on a weekday morning during the advertising period for differential rates at an approximate cost of \$2,500.

Option 2

That Council:

1. ENDORSES a total rate yield for 2023/2024 budget purposes, which will derive a proposed \$28,805,296 in net rate revenue.
2. ENDORSES for the purpose of advertising the following proposed Differential Categories, Rates and Minimum Payments for the Shire of Serpentine Jarrahdale for the 2023/24 rating year:

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Rate Category	Rate in Dollar (Expressed as cents in \$)	Minimum Payment
GRV Residential	0.089710	\$1,378
GRV Commercial / Industrial	0.143738	\$1,564
UV General	0.004119	\$1,508
UV Rural Residential	0.004799	\$1,988
UV Commercial / Industrial	0.007006	\$2,093
UV Intensive Farmland	0.008238	\$3,016

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4. ADOPTS the proposed amendment to the Rating Strategy by eliminating the GRV Vacant rate category as per **attachment 2**.
5. REQUESTS the Chief Executive Officer arrange a 23/24 Draft Budget Breakfast to occur on a weekday morning during the advertising period for differential rates at an approximate cost of \$2,500.

Option 3

That Council requests adjusted calculations:

- X% increase in the minimum rates and the rate in the dollar for all UV General, UV Intensive Farming and all GRV categories.
- Y% increase in the minimum rates and the rate in the dollar for all UV Rural Residential and UV Commercial.

for consideration.

Option 1 is recommended.

Conclusion

The proposed rate in the dollar for the differential general rates have been developed to provide the Shire sufficient funding to maintain levels of service, to mitigate against current financial risk and to meet the Shire's strategic objectives.

This will allow the Shire to mitigate against the current CPI increase as highlighted above.

Attachments (available under separate cover)

- **11.1 - attachment 1** – Differential General Rates and the Minimum Payments Statement of Objects and Reasons (E23/7102)
- **11.1 – attachment 2** – Rating Strategy (E23/7103)

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Alignment with our Strategic Community Plan

The proposal aligns with the following specific objectives outlined in the Strategic Community Plan:

Outcome 4.1	A resilient, efficient and effective organisation
Strategy 4.1.1	Provide efficient, effective, innovative, professional management of Shire operations to deliver the best outcome for the community within allocated resources

Financial Implications

The proposed rate model is expected to yield \$29,302,382 in rate revenue for 2023/2024 which will contribute to the net funding requirements of the Shire's services, activities, financing costs and asset renewal programme.

The 2023/2024 budget has been developed using the following principles discussed and agreed with Elected Members at budget workshops:

- Focus on long-term financial sustainability of the Shire;
- Capacity building to manage the Shire's growth; and
- Funding the Shire's financial requirements in an equitable way.

Risk Implications

Risk has been assessed on the Officer Options and Implications:

Officer Option	Risk Description	Controls	Principal Consequence Category	Risk Assessment			Risk Mitigation Strategies (to further lower the risk rating if required)
				Likelihood	Consequence	Risk Rating	
1	If Council resolve Option 1 there could be dissatisfaction from community members resulting in reputation damage to the Shire.	Advertising of rates and community comment. Rate Strategy adopted in 23/24. Community Perception Survey.	Reputation	Possible	Minor	MODERATE	Nil
2	That Council endorses no increase in the rate in the dollar for 2023/2024 – there is a risk to financial	Nil	Financial Organisation Performance	Likely	Major	HIGH	Nil

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	sustainability and organisational performance						
3	Council requests further calculations for consideration. Risk to adoption deadline of 31 August 2022	Nil	Organisational Performance	Possible	Moderate	MODERATE	Nil

Voting Requirements: Simple Majority

Officer Recommendation:

That Council:

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