

10.3.4 – Differential General Rates and Minimum Payments

Responsible Officer:	Manager Finance
Senior Officer:	Director Corporate Services
Disclosure of Officers 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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This report has been revised following the initial publication of the Agenda on Friday, 11 June 2021. The revisions are:

- References to the Rate Category ‘UV – Commercial’, have been amended to state ‘UV – Commercial / Industrial’.
- The Officer’s Recommendation has been revised to reflect Option 1 to include the recommended action that Council ENDORSES the rating strategy at attachment 2 *and that it be advertised for community consultation*.

The remainder of the report, including the respective ‘rates in the dollar’ for each rating category proposed have not changed.

Report Purpose

The purpose of the report is for Council to consider the setting of the rate in the dollar for the differential rating categories to be applied to the proposed Budget for the 2021/2022 Financial Year, adopt a Rating Strategy for Community Consultation and endorse the Letter to Residents regarding Rating.

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

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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 2021.

Rate revenue is a substantial source of revenue for the Shire of Serpentine Jarrahdale, accounting for approximately two thirds of operating revenue in the 2021/2022 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 are where a local government sets a single general rate in the dollar for each valuation category (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 regardless of their location or land use.

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

- The zoning of the land;
- The predominant use (as determined by the Local Government);
- If the land is vacant or not; and
- Any characteristics prescribed (currently only relevant to amalgamations).

The intention behind applying differential rates is to take into account the levels of services provided to different types of properties, to reflect the cost of provision of services to those categories or properties as well as the need to encourage specific types of activities within the Shire.

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, and to fund these requirements in an equitable way.

Community / Stakeholder Consultation

The Shire is required to, in accordance with Section 6.36 of the *Local Government Act 1995*, give notice of certain rates and invite submissions for a period of 21 days or such longer period. The Shire intends to allow 21 days for submissions and will be writing to all ratepayers advising them of the Shire's proposal for setting of the rate in the dollar along with broader rating information.

A number of workshops have been held with Council to discuss the Shire's proposed Annual Budget, Corporate Business Plan and Long-Term Financial Plan.

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 provide 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 with 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 amount shown in the annual budget as being the amount estimated to be yielded by the general rate is not to vary by +/- 10% of the budget deficiency, i.e. should essentially be a balanced budget (s6.34).
- 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

Financial Sustainability

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.*

To sufficiently address this issue, the Shire’s own source revenue will need to rise by at least \$1.6 million dollars per annum or conversely operating cash costs would need to fall by a similar margin.

Council has been systematically attempting to reduce annual cash expenditure in an attempt to address this issue with operating cash costs falling by over half a million dollars over the past 3 years despite servicing 8% more properties within the Shire of Serpentine Jarrahdale.

Additionally, Council commissioned the Western Australian Treasury Corporation to conduct a Financial Sustainability Review of the Shire in 2020.

The findings contained in this review indicate that the Shire of Serpentine Jarrahdale’s own source revenue needs to rise by at least \$1.8 million per annum to meet its ongoing Asset Renewal requirements over the next ten years.

Rating Equity

During 2020 the Shire of Serpentine Jarrahdale conducted a review into rating equity within the municipality.

Whilst Council determined to discontinue the review at the request of the Minister for Local Government it was found that over 2,300 properties within the Shire were being used



predominantly for residential, commercial or industrial purposes but the Shire is rating them as though they were being used for rural purposes.

Equity is an important concept in taxation, The Department of Local Governments 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.

Rating Strategy

To ameliorate the issues outlined above, Officers will recommend that a rating strategy at **attachment 2** be adopted by Council.

Broadly, this strategy document attempts to address the Shire's financial sustainability and rating equity issues by engaging with the State Government to implement a more consistent rating methodology whilst continuing to use differential rates with an expanded list of categories.

The additional categories will be Rural Residential and Commercial/Industrial to be applied where appropriate to properties with an Unimproved Value.

Differential Rates

Officers will recommend that:

- GRV Residential Rate be reduced to slightly less than the current equivalent rate for the City of Armadale.
- The re-introduction of a Rural Residential UV rating category for rural properties 4,000sqm to 50,000sqm to be 5% higher than the base UV rate and a minimum rate of \$1,750. For context, the average residential GRV rate excluding those on a minimum rate is \$1,764.
- The introduction of a Commercial/Industrial UV category with a rate 50% higher than the base UV rate for rural properties used predominantly for commercial/industrial purposes.

Of 12,395 properties within the Shire, these changes will deliver a small reduction in rates for 8,236 and no change to 1,148 properties.

The remaining 3,011 properties will see an average increase of \$297 as the Shire moves to address its funding requirements in an equitable way.

The proposed rates will yield approximately \$25,060,988 in net rate revenue, which is a 1.85% increase on current year to date base rate calculations.

The Shire continues to look for ways to achieve rating equity in the Shire and this rating strategy has been designed to address funding requirements in an equitable way.

2021/2022 Budget Proposal

The following are the proposed Differential General Rates and Minimum Payments for the Shire of Serpentine Jarrahdale for the 2021/2022 financial year, to be effective from 1 July 2020.

Rate Category	Rate in Dollar (Expressed as cents in \$)	Minimum Payment
GRV Residential	0.103321	\$1,276



GRV Commercial / Industrial	0.117763	\$1,434
GRV Vacant	0.189295	\$972
UV General	0.004135	\$1,383
UV – Rural Residential	0.004342	\$1,750
UV – Commercial / Industrial	0.006203	\$1,750
UV Intensive Farmland	0.008270	\$1,750

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

Additional Communication

In addition to the usual advertising associated with the 21-day submission period required under the *Local Government Act 1995* for inviting submissions on differential rates, officers will recommend that the letter listed as **confidential attachment 3** be sent to every household.

The letter will communicate:

- Council's resolution of 14 December 2020 to not proceed with the Rating Equity Project as outlined in the Project plan.
- The proposed differential rates and the broad impact of the changes.
- A request for submissions on the proposed Differential Rates and the Rating Strategy.

Options and Implications

Option 1

That Council

1. ENDORSES a total rate yield for 2021/2022 budget purposes, which will derive a proposed \$25,060,988 in net rate revenue, which is a 1.85% increase on current year to date base rate calculations.
2. ENDORSES for the purpose of advertising the following proposed Differential Categories, Rates and Minimum Payments for the Shire of Serpentine Jarrahdale for the 2021/22 rating year.

Rate Category	Rate in Dollar (Expressed as cents in \$)	Minimum Payment
GRV Residential	0.103321	\$1,276
GRV Commercial / Industrial	0.117763	\$1,434
GRV Vacant	0.189295	\$972
UV General	0.004135	\$1,383
UV – Rural Residential	0.004342	\$1,750
UV – Commercial / Industrial	0.006203	\$1,750
UV Intensive Farmland	0.008270	\$1,750



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. ENDORSES the rating strategy at **attachment 2** be advertised for community consultation.
5. APPROVES the Chief Executive Officer to send the letter at **attachment 3** to all properties within the Shire and NOTES this gives effect to Council Resolution SCM378/12/20.

Option 2

That Council

1. ENDORSES a total rate yield for 2021/2022 budget purposes, which will derive a proposed \$25,060,988 in net rate revenue, which is a 1.85% increase on current year to date base rate calculations.
2. ENDORSES for the purpose of advertising the following proposed Differential Categories, Rates and Minimum Payments for the Shire of Serpentine Jarrahdale for the 2021/22 rating year.

Rate Category	Rate in Dollar (Expressed as cents in \$)	Minimum Payment
GRV Residential	0.103321	\$1,276
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UV Intensive Farmland	0.008270	\$1,750

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. Requests the CEO commence a participatory budget process for the 2022/2023 budget.
5. ENDORSES the rating strategy at **attachment 2** be advertised for community consultation during a participatory budget process.
6. APPROVES the Chief Executive Officer to send the letter at **attachment 3** to all properties within the Shire and NOTES this gives effect to Council Resolution SCM378/12/20.

Option 3

That Council



1. DOES NOT ENDORSE a total rate yield for 2021/2022 budget purposes, which will derive a proposed \$25,060,988 in net rate revenue, which is a 1.85% increase on current year to date base rate calculations.
2. DOES NOT ENDORSE for the purpose of advertising the following proposed Differential Categories, Rates and Minimum Payments for the Shire of Serpentine Jarrahdale for the 2021/22 rating year.

Rate Category	Rate in Dollar (Expressed as cents in \$)	Minimum Payment
GRV Residential	0.103321	\$1,276
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GRV Vacant	0.189295	\$972
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UV – Rural Residential	0.004342	\$1,750
UV – Commercial / Industrial	0.006203	\$1,750
UV Intensive Farmland	0.008270	\$1,750

3. DOES NOT ENDORSE 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. DOES NOT ADOPT the rating strategy at attachment 2.
5. DOES NOT AUTHORISE the letter at confidential attachment 3 to be sent to all properties within the Shire.

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 and meet the Shire's strategic objectives.

Attachments (available under separate cover)

- **10.3.4 - attachment 1** – Statement of Rating Objective and Reasons for the 2021/2022 Rating Year (E21/6362)
- **10.3.4 - attachment 2** - Rating Strategy (E21/6510)
- **10.3.4 - attachment 3** – DRAFT Letter to Residents (E21/6513)

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 \$25,060,988 in rate revenue for 2021/2022 which will contribute to the net funding requirements of the Shire's services, activities, financing costs and asset renewal programme.

The 2021/2022 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	<i>Insufficient Rate Revenue to fund the Shire's operations.</i>	<i>Comprehensive budgeting process to establish the Shire's funding requirements.</i>	Financial	Unlikely	Major	MODERATE	Not applicable
2	<i>That Council does not endorse the Rating Strategy 2021/2022.</i>	<i>Comprehensive budgeting process to establish the Shire's funding requirements.</i>	Financial	Unlikely	Major	MODERATE	Accept Officer Recommendation
3	<i>That Council does not endorse the Rating Strategy 2021/2022.</i>	<i>Comprehensive budgeting process to establish the Shire's funding requirements.</i>	Financial	Unlikely	Major	MODERATE	Accept Officer Recommendation



Voting Requirements: Simple Majority

Officer Recommendation:

That Council:

1. **ENDORSES** a total rate yield for 2021/2022 budget purposes, which will derive a proposed \$25,060,988 in net rate revenue, which is a 1.85% increase on current year to date base rate calculations.
2. **ENDORSES** for the purpose of advertising the following proposed Differential Categories, Rates and Minimum Payments for the Shire of Serpentine Jarrahdale for the 2021/22 rating year.

Rate Category	Rate in Dollar (Expressed as cents in \$)	Minimum Payment
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UV Intensive Farmland	0.008270	\$1,750

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. **ENDORSES** the rating strategy at attachment 2 be advertised for community consultation.
5. **APPROVES** the letter at confidential attachment 3 to be sent to all properties within the Shire.