City of Greater Geraldton Budget Principles & Rating 2013-14

Introduction

The 2013-14 Budget is framed as the first year of a new 10 year Long Term Financial Plan (LTFP) for the City, and it reflects the Council goals of financial sustainability and maintaining infrastructure, facilities and levels of service for a growing community.

The 2013-14 Budget is framed on the fundamental assumption that the City will, within ten years, achieve a positive annual accounting surplus and that every annual Budget will be framed consistent with achieving that goal, as envisaged in the ten year LTFP.

The 2013-14 Budget proposes increases in *aggregate rates revenue collections* of **2.25%** relative to 2012-13. Rates in the Dollar and Minimum Payments have been calculated accordingly, to be applied as appropriate to Gross Rental Valuation (GRV) and Unimproved Value (UV) property valuations that apply from 1 July 2013.

The 2013-14 Budget provides for an operating deficit from ordinary activities of $5.97 million**,** providing Council with limited flexibility to deal with any variation which may occur during the year.

The 2013-14 Budget has been framed in the specific context of the City's 2012-13 Budget which saw rates increases across both GRV and UV property classes, in a GRV revaluation year, designed to better position the City to achieve strategic financial sustainability. Having regard to the average levels of rates increases in 2012-13, the 2013-14 budget sees a CPI-only adjustment in rates revenues, designed to provide a modest degree of relief to ratepayers.

A feature of this Budget is *minimal additional new capital works projects*, with focus in 2013-14 on completion of significant projects carried forward from 2012-13 for which the City received approval of grant assistance from the Federal Government under the Building Better Regional Cities Program, and grants from the State Government under its Royalties for Regions program. Those projects are being funded across multiple financial years and will deliver significant economic stimulus and long lasting benefits for the community.

The 2013-14 Budget includes further modest steps towards alignment of rates and minimum payments between the areas previously included in the Geraldton-Greenough and Mullewa local government districts, consistent with the Merger agreement endorsed by the Minister for Local Government and related Governor's Orders, providing for completion of the rates alignment process within 5 years of the merger. In particular, this applies to Rural UV properties. Alignment of rates between the previous local government districts *must* be finalised by 2015/16.

Fees and Charges for 2013-14 have been increased either by the statutory increase, assessment of actual costs escalation, or bench-marking with other local governments.

Budget Assumptions

Key assumptions made in preparing City financial planning include the following:

- To maintain infrastructure, facilities and service levels for the community, aggregate rates and other revenues from fees and charges will increase annually at least by amounts sufficient to cover inflation and cost escalation factors including:
  - consumer prices,
  - labour and construction cost index forecasts for the State,
  - externally imposed charges such as the Federal Carbon tax, and
  - increases in the costs of utilities including electricity, gas, water, sewerage and telecommunications.

- Budgets will be prepared consistent with the Long Term Financial Plan adopted by Council, with the explicit strategic objective of achieving a positive annual accounting surplus from operations within ten years – by or before 2023.

- New loans for any capital works will only be taken out where the City will remain within prudent limits, with total outlays for payment of loan interest and principal repayments not exceeding 10% of annual operating income. Loan facilities will only be drawn down as and when funding is required.

- Internal labour costs will increase in line with salary and wages increases negotiated for the City's Enterprise Agreement.

- Labour costs for out-sourced works will increase in line with official forecasts of official WA labour cost indices, as applied by the State Government in their State Budget.

- Construction costs, including costs for roads and bridges, will increase in line with official forecasts for WA construction cost indices, as applied by the State Government in their State Budget.

- Staff levels will be based on the People Plan adopted by Council, as part of the Local Government Integrated Planning Framework.

- Assets will be managed in accordance with Asset Management Plans adopted by Council as part of the local Government Integrated Planning Framework.

- Consistent with the LTFP, annual aggregate rates revenue increases of 5% per year will be required from 2014-15 through 2023-24 to achieve the target operating surplus position, with limited capacity in the period to finance new capital projects.

Cost of Borrowings - Assumptions for 2013-14

- Loan interest rates through 2013-14 are expected to average 3.5% and 4.2% for 5 and 10 year term loans respectively.

Financial Sustainability

Effective from 1 July 2013 all Local Governments in Western Australia must have in place 10 year long term financial plans, as part of the new mandatory Integrated Planning Framework. The Department of Local Government will monitor the financial sustainability and viability of Councils via reporting against mandatory financial performance indicator ratios. Councils that fail to meet financial sustainability standards based on criteria determined by the Department and to be expressed in terms of threshold levels for viability determined and prescribed by the Department, may become ineligible in future years for access to a range of funding and support programs from the State Government. It is therefore imperative in the interests of all City residents and ratepayers that the City strives to achieve and maintain a position of long term financial sustainability.

The Long Term Financial Plan for the City has been prepared having regard to the financial sustainability ratios prescribed under *Local Government (Financial Management) Regulation 50*, and the related guidance standards for sustainability, which have been specified for each prescribed ratio by the Department of Local Government.

Focus on Achieving an Operating Surplus

The most significant fundamental reform required in Public Sector financial planning and management, and in progress nationally since the 1990's, is the shift from Cash-based budgets and reporting, to budgeting, accounting and reporting on an Accrual basis, in accordance with internationally-aligned Australian Accounting Standards.

That change requires Local Governments across Australia to recognise, in the same way as private sector businesses, not just their cash-based operating expenses, but also the capital expenses that match to an accounting period – most particularly their annual asset depreciation expenses - and to set their revenue and income budgets to recover those capital expenses. Doing that enables an entity to make necessary budget provision from their ordinary operating income streams for maintaining their productive capital capacity, renewing and replacing assets as they wear out.

The extent to which an entity fails to recover capital expenses such as depreciation of assets goes directly to its annual operating result. In a private sector business it reduces accounting profit (or worse, increases their accounting *loss* in their annual operating statement - or what was more generally referred to as a profit and loss statement or P&L). Such accounting losses flow straight to reducing Equity in their statement of financial position – generally referred to as their 'balance sheet'.

The traditional approach to budgeting and financial management in Local Government saw primary focus just on cash-based outlays, with concentration on the cash-based Rate Setting Statement, with – in stark contrast to mandatory focus for Company Boards of Directors – little or no attention to effects in the P&L or Balance Sheet. Councils traditionally focused on the concept of a cash-based 'budget deficit' to determine net cash required from rates revenue, with no reference to the actual Accounting result from ordinary local government operations.

That cash-based focus remains in the *Local Government Act 1995* and in associated *Local Government (Financial Management) Regulations*, which prescribe what a Council *may exclude* from its calculation of the cash-based "budget deficit" to be funded by imposition of Rates. Depreciation expenses are currently allowed exclusions, for the purposes of the cash-based Rate Setting Statement.

However, the new ratios prescribed in Local Government (Financial Management) Regulation 50(2) include for example the Asset Sustainability Ratio, which measures the annual expenditure on renewal and replacement of assets as a proportion of annual asset depreciation expense.

For that ratio, the standards issued by the Department of Local Government set 90% as the basic standard for financial sustainability. Long Term Financial Plans of Councils are now obliged to include strategies to achieve at least the basic sustainability benchmarks for all of the ratios prescribed in LGFM Regulation 50(2). The City has adopted a 10 year timeframe to achieve financial sustainability.

One of the great challenges for Councils is getting communities to understand how an apparent cash-based budget 'surplus' (as calculated via their Rate Setting Statement) can actually deliver an *annual operating deficit* – a Loss, not an accounting surplus. To accountants and private sector business people the reasons are blindingly obvious – by excluding non-cash expenses such as asset depreciation from the rate setting statement, actual total expenses are under-stated. To the extent that expenses are under-stated in the cash-based Rate Setting statement, the community is effectively under-Rated.

Without being exhaustive, the alternatives to full Rates coverage for annual depreciation expenses might include:

- Asset sales, so the community is no longer responsible for funding asset renewal/replacement – but noting that there is no commercial market for roads, drainage systems, community halls, public parks and so on, so a very high proportion of Council assets cannot be disposed of;

- Lease-out of assets, moving control and management and fee-setting powers to private commercial entities, to generate lease rental revenue for the City;

- Increasing revenue from City Fees and Charges, increasing the focus on User-Pays access to infrastructure, facilities and particular services;

- Cessation or reduction of rates-derived operating subsidies for particular facilities such as Queens Park Theatre and Aquarena, effectively requiring reduction in availability and opening hours of such facilities;

- Diversion of funds from Council service delivery programs, to meet the costs of asset renewal/replacement, reducing scope of programs and levels of services – but requiring comprehensive engagement with the Community, to guide which programs or services should be abolished or reduced in terms of scope or level of service – which services is the community prepared to reduce or go without?

- Fully commercialise assets such as the Airport, to generate tax-equivalents and dividend revenue streams – as opposed to reinvesting all airport net operating surpluses into ongoing airport development, and keeping airport lease rents and airline fees and charges (which are passed on to passengers) relatively low as a community service obligation aimed at keeping airfares as low as possible for the community;

- Generation of capital funds for asset renewal, or new asset development, from profits on land development and sale projects – which the City already does, avoiding need to raise additional rates or new borrowings for asset renewal or new assets;

- Cessation or reduction of community grants programs, providing the cash instead to fund asset renewal; or

- Simply not renewing/replacing particular assets as they wear out, potentially leading to urban decay or rural decline, loss of functionality for the local economy, and loss of public safety, amenity and liveability for the community.

The bottom line is that if a Community does not wish to fund the essential renewal of municipal infrastructure and community facility assets from Rates revenue, the community needs to decide what else it is prepared to go without, and what else it is prepared to pay for via fees and charges, rather than from rates, to provide the funds required for essential assets renewal – or cessation of availability of those assets.

This is not “new news”. The annual financial statements of Councils have (since the reforms were initially introduced via Australian Accounting Standard 27) for many years reported the proper *accounting* results, not just the *cash-based* budget outcome for a financial year. Hence, accounting-literate readers have been aware of the actual accounting results of Councils for many years.

Unfortunately, such issues are simply not front-of-mind across the broader community and, while many business operators understand the complexities of accounting and finance, including issues such as the depreciation of assets, a significant majority of the general community do not. Hence - frequent misunderstanding and consequent angst when Councils endeavour to implement these mandatory reforms, inevitably requiring increased revenue collections from their communities, potentially combined with reduced scope or level of services.

Requirements have changed. Councils all over Australia must now give close attention to their full accrual-based operating statements and their statement of financial position (balance sheet), not just a cash-based budget which is used to calculate a net *cash* financing requirement – but which ignores expenses such as asset depreciation. The City is bound to implement reforms such as transition to ‘fair value’ accounting for its assets, and bound to achieve financial sustainability benchmarks prescribed by the department of Local Government. The Council has no choice.

Council’s strategic approach to asset management is based on the Total Life Cycle of assets, and the development of asset management plans across all significant classes of assets. Contemporary public sector fiscal management requires recognition of:

- the rate at which a fixed asset physically deteriorates (depreciates) in the context of the cost required to preserve the productive capacity and functionality of an asset, and ultimately to replace/renew the asset when its useful working life ends;
- the value of fixed assets in current dollar terms (obligatory now for Local Governments, required to adopt ‘fair value’ in asset valuations, instead of historical costs); and
- the rate at which funds are budgeted and utilised to meet the costs of asset renewal/replacement, when renewal/replacement becomes necessary, as assets wear out.

The difference between the rate of depreciation of assets, and the collection of sufficient revenue to enable funds to be allocated annually for renewal of assets as they wear out, is known as the asset renewal funding gap. That funding gap is reflected in the accounting results each year - and the extent to which operating revenue fails to cover expenses including annual depreciation expense results in a real accounting deficit. The City aims to operate with real accounting surpluses within ten years.

In this, Councils are confronted with exactly the same issues as major utility infrastructure entities, such as electricity and water providers. They are obliged across a period of years to move to *full cost-reflective pricing* of their utility services, with State Governments unwilling to continue forever the current arrangement of subsidy of utility operating losses from the general revenue base of the State.

Inflation & Costs Escalation

The information below is provided from the March and May 2013 Economic Briefings prepared by WALGA.

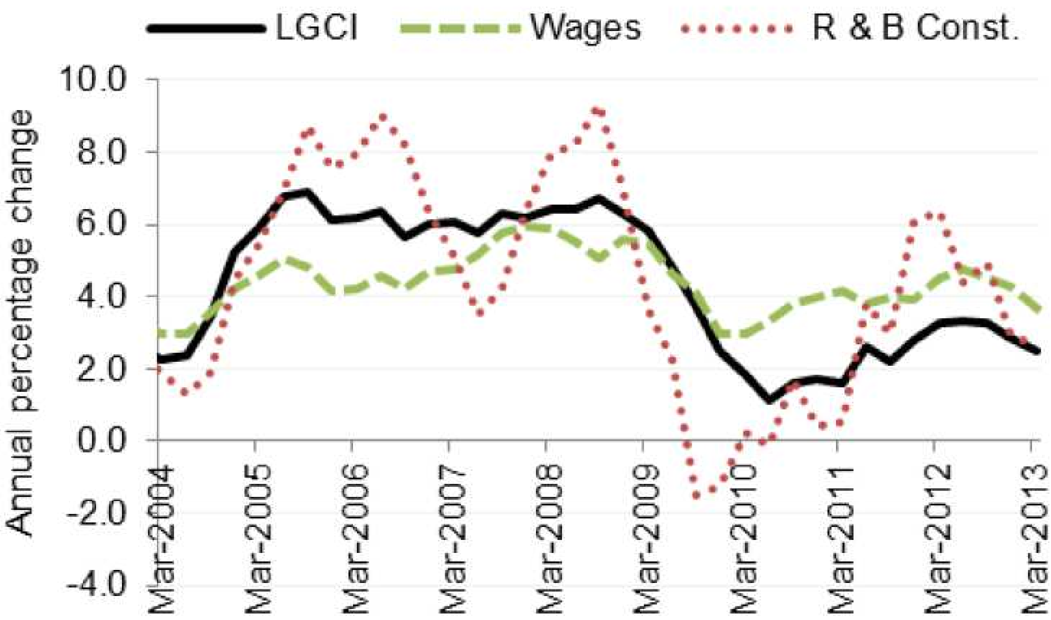
Local Government Costs Index Forecast 2013-14:

LGCI Component	Forecast Increase for the financial year	
	2012-13	2013-14
Wages and Salaries[1]	4.5	4.2
Road and Bridge Construction[2]	3.0	2.4
Non-residential Building[2]	3.4	3.8
Consumer Prices[1]	3.2	3.0
Machinery and Equipment[3]	2.2	0.7
Electricity and Street Lighting[4]	5.2	4.6
Local Government Costs	**3.6**	**3.2**

Source:
1. Based on WA State Treasury forecasts
2. Based on Australian Construction Industry Forum forecasts
3. WALGA estimated forecast
4. Based on the State Government's projected tariff increases from the 2012/13 Budget

Movements in Local Government Costs Index 2012 and 2013:

Index	Dec qtr 2012 to Mar qtr 2013 (%)	Mar qtr 2012 to Mar qtr 2013 (%)
Wages	0.9	3.7
Road and Bridge Construction	0.6	2.7
Non-residential Building	-0.3	-0.7
Other costs	0.5	2.4
Machinery and Equipment	-0.1	3.5
Electricity and street lighting	0.0	4.3
Local Government Cost Index	**0.4**	**2.5**



Local Government Cost Index, Wages, and Road and bridges Construction – Comparison to March 2013

Source: WALGA calculations; ABS Cat# 6345.0 Wage Price Index March 2013; ABS Cat# 6427.0 Producer Price Indexes March 2013.

Rates Increase 2013-14

The recommended 2013-2014 Budget has been based on an increase of **2.25%** in aggregate rate revenue collections for both GRV and UV valued properties.

Rates in the dollar and minimum payments have been calculated accordingly, to deliver the target increase in *aggregate rates revenue*.

Note that an increase of 2.25% in aggregate rates revenue does not necessarily translate to a 2.25% increase in rates in the dollar, because *aggregate rates revenue* includes:
differential rates payable on properties with valuations *above* the threshold for their differential rating category at which minimum payments cease and payment of general rates begins; plus
minimum payments payable on properties with valuations *below* the threshold at which a calculated rate-in-the-dollar takes effect; plus
estimate of interim rates payable, arising from *interim valuations* by Landgate subsequent to 1 July 2013 (triggered for example by completion of a dwelling on previously vacant GRV residential land, or completion of improvements to a GRV residential or non-residential property); plus
estimate of prior year rates still outstanding at 30 June but recovered during the financial year after 1st July).

Provisions of the *Local Government Act 1995* require inter alia that:

- in determining differential rates, a particular rate may not be more than twice the rate of the lowest differential rate, other than with prior approval of the Minister [s6.33(3)]; and
- in determining minimum payments, where other than a general minimum is proposed, with a lesser minimum proposed for any portion of a district, if the proposed minimum exceeds $200 the minimum is not to be imposed on more than 50% of the number of separately rated properties in the district or 50% of the number of properties in each differential rating category [s6.35 and LGFM regulations 52 and 53].

The framing of differential rates for 2013-14 has been undertaken so as not to require Ministerial approvals under section 6.33 of the Act. Framing of minimum payments has been undertaken to comply with the provisions of section 6.35 of the Act.

Separate Differential rates for mining tenements have been abolished, with UV rates in the dollar now applying to rural properties generally, including any rural mining tenement properties.

The Specified Area parking rate has been increased by 2.25%.

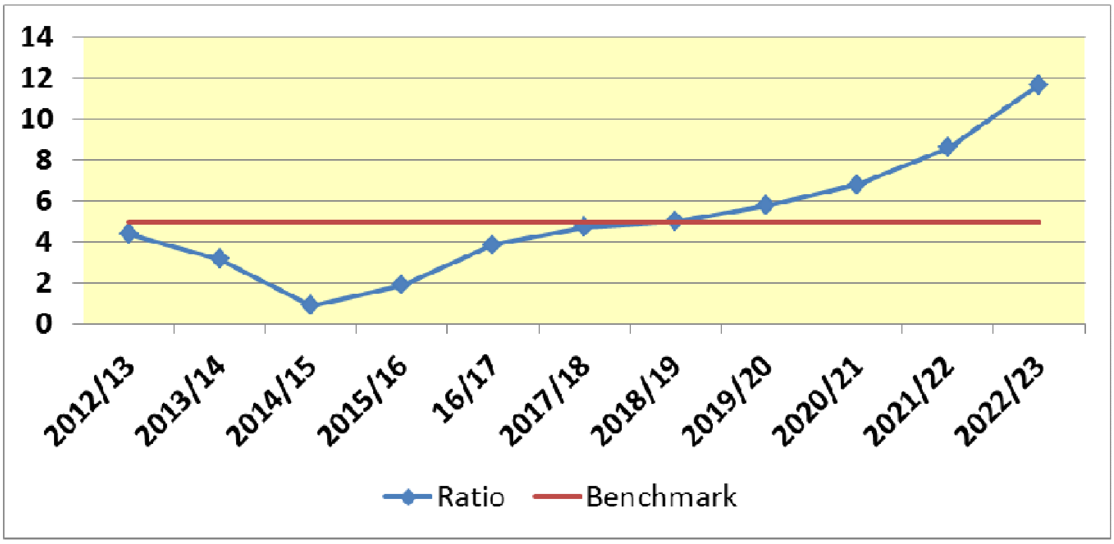
Debt Financing

Council's long term borrowing strategy focuses on reaching a debt position that provides future flexibility to use loan funds, without unduly exposing Council to a high debt burden.

The key indicator of sustainability in use of debt finance is the *Debt Service Coverage Ratio* as defined in Local Government (Financial Management) Regulation 50. That ratio is calculated by dividing the annual operating surplus before interest and depreciation, by the value of annual loan interest and principal payments.

The *Integrated Planning and Reporting Advisory Standard* issued by the Department of Local Government specifies that the *basic* financial sustainability standard is met if this ratio has a value greater than or equal to 2, and the *advanced* sustainability standard is met if this ratio has a value greater than 5.

Retirement of debt associated with short term facilities for land development projects will occur from proceeds of sales during 2013-14 and 2014-15.This will see the debt service ratio operate consistently above the basic sustainability ratio value of 2 from 2015-16 onwards, with intention per the Long Term Financial Plan to exceed the advanced sustainability benchmark ratio value of 5 from 2018-19.



Debt Service Coverage Ratio

The City operates within the legislative constraint of inability to offer property as security for loans, only being able to secure loans against its operating revenues.

The City limits its borrowings such that annual outgoings to service interest and repayment of loan principal do not exceed 10% of the City's operating revenues.

Rating - General

The overall objective of the proposed rates and charges in the 2013-14 Budget is to provide for the net funding requirements for Council Operational and Capital Programs and is based on an overall increase in rates revenue of 2.25% above 2012-13, with some increases and decreases in Minimum rates, adjusted as necessary for regulatory compliance.

Differential Rates will be levied on all rateable properties in accordance with the Local Government Act 1995.

The Gross Rental Values (GRV) on which the rating principles are based are on the valuation of all properties effective 1 July 2013 and interim valuations subsequently issued.

For properties on Unimproved Values (UV), the values are set annually and apply from 1 July 2013.

Differential Rating

The purpose of imposing a differential rate between improved and vacant properties in the residential zones as well as commercial and industrial areas which are based on gross rental valuations is to obtain fair income from all ratepayers in the City of Greater Geraldton.

Commercial and industrial sectors generate high traffic volumes with heavy loads and therefore should contribute a higher level than residential properties for road construction, maintenance and refurbishment including road drainage systems.

The City continues to set vacant residential land rates higher than the rate in the dollar for improved residential land, as an incentive to promote land development rather than 'land banking'.

Rates for rural areas are based on Unimproved Values issued by Landgate Valuation Services every year.

Under the Local Government Act, Section 6.33 – Differential General Rates, the Council can introduce differential rates as follows:

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.*

The City Budget & Revenue from Rates

Long term financial plans and annual budgets for the City are framed to achieve the following goals:

- Achieve a positive annual accounting surplus from ordinary operating activities, by or before 2023 – considered the driving strategic financial management imperative of Council;

- Balance over time the proportional allocation of resources to economic, social, cultural and environmental programs to meet statutory obligations and meet the needs and aspirations of the Community;

- Maintain levels of operational services needed by the community in terms of nature, access, scope, quality, frequency and timeliness;

- Maintain the operational functionality, serviceability and safety of existing infrastructure, facility, public amenity and other built assets through appropriate preventative and corrective maintenance programs;

- Maintain levels of plant and equipment necessary to enable and support the delivery of services and facilities needed by the community;

- Recover past deficits or losses brought forward;

- Provide funds to service interest costs and repayment of principal for loans;

- Provide funds to renew/replace existing assets that have reached the end of serviceable working life;

- Provide own-source capital funds towards construction of new infrastructure, facility and public amenity assets determined by the Council as capital works required to meet the needs of City economic development, population growth and environmental sustainability;

- Provide untied funds when appropriate to enable the City to access Federal or State capital grant programs requiring equal or partial matching funds;

- Create and maintain an appropriate working capital (untied cash) capacity to enable the City to respond to any unscheduled/urgent asset renewal/replacement demands, respond to natural disasters or emergencies, or respond to unanticipated opportunities for projects demonstrably in the strategic interests of the community.

To achieve these goals, long term financial plans and annual budgets are framed to:

- Maintain levels of services, by budgeting to cover forecast inflation of consumer, labour and construction costs, increases in costs of insurances, escalation of existing (or introduction of new) Federal or State taxes, fees or charges on the City, and escalation of essential utility costs including telecommunications, electricity, gas and water.

- Meet the Department of Local Government benchmark performance levels specified for each of the financial ratios prescribed in *Local Government (Financial Management) Regulation* 50 by or before 2023-24, including the basic performance benchmark for annual expenditure on asset renewal, requiring a combination of own-source revenue collection increases, service scope and level reviews, cost reductions where possible, and operational efficiencies.

- Bridge the working capital gap inherited from past Council mergers.

- Limit new capital projects in any year to within the capital funding prudently available to Council from planned combination of own-source funds, committed grants, reserved funds where available, and use of loans available within the loan-servicing limits.

Council's Long Term Financial Planning is informed by State Government policy, as set out in the *Integrated Planning and Reporting Advisory Standard* issued by the Department of Local Government.

Compliance with these standards is compulsory on all Councils, with all Councils obliged to report against the new financial sustainability performance indicators from 1st July 2013.

Council's LTFP reflects the financial performance reporting ratios required to be reported under Local Government (Financial Management) Regulation 50.

In particular, the attention of electors, ratepayers and other stakeholders is drawn to sections 1.3 and 1.4 of the *Integrated Planning and Reporting Advisory Standard* issued by the Department of Local Government (and available from its website), specifying basic compliance standards for performance in financial management and asset management respectively.

The performance standards include the requirement on Councils to achieve annual expenditure on the renewal of non-current assets equivalent to at least 90% of the annual depreciation expense of the local government.

The Advisory Standard does not specify deadline dates for achievement by Councils of the basic sustainability benchmarks.

Current Council planning is to achieve positive accounting surpluses from its operations, and in doing so effectively bridging the asset renewal funding gap, within 10 years, by or before 2023-24.

Variation from *Proposed* Differential Rates & Minimum Payments for 2013-14

In accordance with section 6.36 of the Act, local public notice was first given on the 1st May 2013 of intent to impose particular proposed differential rates and minimum payments, inviting submissions from Electors and Ratepayers by 5:00pm on 29th May 2013.

The rates advertised were *estimates at that stage of the budget formulation process*, and were subject to change as part of Council deliberations after consideration of relevant matters and consideration of any submissions received from electors and ratepayers.

At that stage in the budget process, ***proposed*** rates in the dollar and minimum rates for the 2013-14 financial year for each rating category are shown in Table 'A' below - with 2012-13 comparisons:

TABLE 'A': Differential Rates & Minimum Payments as Proposed by Local Public Notice 1st May 2013	**2012-13 Actual Rates in the Dollar**	**2013-14 Proposed (s6.36 Notice)**	**2012-13 Actual Minimum Payments**	**2013-14 Proposed (s6.36 Notice)**
Differential General Rates	**Cents in the Dollar**	**Cents in the Dollar**	**Minimum Payments**	**Minimum Payments**
Vacant Residential GRV	17.6647c	18.9366c	$955	$1,024
Residential GRV	10.2228c	10.9588c	$955	$1,024
Non-Residential GRV	10.2968c	11.0382c	$955	$1,024
GRV Un-occupiable City Centre Zone	19.4234c	20.8219c	N/A	N/A
Geraldton General Farming UV	0.6389c	N/A	$955	N/A
UV Mining tenements	22.7136c	N/A	$345	N/A
New: UV Geraldton (Rural Mining & Farming General)	N/A: Base 0.6389c	0.6849c	N/A: Base $955	$1,024
UV Mullewa (Rural Mining & Agriculture)	0.8974c	0.8100c	$288	$682
GRV Pindar Townsite	13.8362c	N/A	$104	N/A
GRV Mullewa Townsite	10.7432c	N/A	$384	N/A
New: GRV Mullewa (Ex-Mullewa Shire District)	N/A: Base 10.7432c	11.5167c	N/A: Base $384	$683

Council consideration of submissions received from electors and ratepayers, and consideration of other relevant information, led to adoption of differential rates and minimum payments modified from those proposed in its local public notice of intention to impose differential rates.
Section 6.36(4) envisages that, after considering any submissions received, a Council may imposed the proposed rates or minimum payments *with or without modification*.

Council has adopted rates and minimum payments for 2013-14 as set out in Table 'B' below:

TABLE 'B': **Rates and Minimum Payments for 2013-14**	**Proposed Rates: (Cents in the Dollar)**	**ADOPTED Rates (Cents in the dollar)**	**Proposed Minimum Payments ($)**	**ADOPTED Minimum Payments ($)**
Differential General Rates:				
Vacant Residential GRV	18.9366c	18.1151c	$1,024	$769
Residential GRV	10.9588c	10.4835c	$1,024	$979
Non-Residential GRV	11.0382c	10.5594c	$1,024	$979
GRV Un-occupiable City Centre Zone	20.8219c	19.9186c	N/A	N/A
UV Geraldton (Rural Mining & Farming General)	0.6849c	0.6552c	$1,024	$979
UV Mullewa (Rural Mining & Agriculture)	0.8100c	0.8100c	$682	$683
GRV Mullewa (Ex-Mullewa Shire District - previously GRV Mullewa and Pindar town sites)	11.5167c	11.0172c	$683	$628
Specified Area Rate:				
Specified Area Parking	0.5199c	0.4965	N/A	N/A

Reasons for Adoption of Differential Rates Varied from Advertised Intended Rates

Council considerations leading to varying from the estimated rates as initially advertised pursuant to section 6.36 of the Act during May 2013, and adopting the modified differential general rates and minimum payments as shown in Table 'B' above included:

- effects of the rates revenue increase in 2012-13;
- inflation forecasts for 2013-14;
- indications of a general downturn in local economic activity;
- perceived capacity of the general community and the business community to pay, in the light of prevailing economic circumstances;
- views submitted by electors and ratepayers in response to local public notice in May 2013 of the City's intent to impose certain differential rates and minimum payments - and consideration of those views by Council.

Comparison Between 2012-13 and ADOPTED Rates and Minimum Payments For 2013-14

TABLE 'C': Rates & Minimum Payments	**2012-13 RATES**	**2013-14 ADOPTED RATES**	**2012-13 Minimum Payments**	**2013-14 ADOPTED Minimum Payments**
Differential General Rates	**Cents in the Dollar**	**Cents in the Dollar**	**$**	**$**
Vacant Residential GRV	17.6647c	18.1151c	$955	$769
Residential GRV	10.2228c	10.4835c	$955	$979
Non-Residential GRV	10.2968c	10.5594c	$955	$979
GRV Un-occupiable City Centre Zone	19.4234c	19.9186c	N/A	N/A
Geraldton General Farming UV	0.6389c	**n/a**	$955	**n/a**
UV Mining tenements	22.7136c	**n/a**	$345	**n/a**
New: UV Geraldton (Rural Mining & Farming General)	N/A: Base 0.6389c	0.6552c	N/A: Base $955	$979
UV Mullewa (Rural Mining & Agriculture)	0.8974c	0.8100c	$288	$683
GRV Pindar Townsite	13.8362c	**n/a**	$104	**n/a**
GRV Mullewa Townsite	10.7432c	**n/a**	$384	**n/a**
New: GRV Mullewa (Ex-Mullewa Shire District)	N/A: Base 10.7432c	11.0172	N/A: Base $384	$628

Differential Rating Categories: Gross Rental Value (GRV) Properties

Residential GRV

This category will include any non-rural property in that part of the City district (*excluding the part of the City previously being the district of the Shire of Mullewa*) that is GRV rated, and zoned residential or otherwise that is used in a domestic capacity as determined by Council.

A rate in the dollar of **10.4835** cents on Gross Rental Values with a minimum payment of **$979** is proposed for 2013-14.

The general objects and purposes of this rate and the minimum payment for this differential rating category are as described in the previous section *The City Budget & Revenue from General Rates*. This particular proposed rate reflects the level of rating required to raise the necessary revenue for Council to operate efficiently and provide the diverse range of services and programs required for developed residential and urban areas of the designated part of the City.

Residential Vacant GRV

This category will include any non-rural property in that part of the City district (*excluding the part of the City previously being the district of the Shire of Mullewa*) that is GRV rated and zoned residential that is determined to be Vacant for the purposes of property valuation by the Valuer General.

A rate in the dollar **18.1151** cents on Gross Rental Values with a minimum payment of **$769** is proposed for 2013-14.

The general objects and purposes of this rate and the minimum payment for this differential rating category are as described in the previous section *The City Budget & Revenue from General Rates*. This rate reflects the level of rating required to raise the necessary revenue for Council to operate efficiently and provide a diverse range of services and programs for residential areas of the designated part of the City.

Non Residential GRV

This category will include any non-rural property in that part of the City district (excluding the part of the City previously being the district of the Shire of Mullewa) zoned other than residential and will include any property zoned residential that is being utilised in a non-residential capacity as determined by Council.

A rate in the dollar of **10.5594** cents on Gross Rental Values with a minimum payment of **$979** is proposed for 2013-14.

The general objects and purposes of this rate and the minimum payment for this differential rating category are as described in the previous section *The City Budget & Revenue from General Rates*.
A particular purpose of the differential rate on Non Residential properties is to recover from the business sector a greater share of the costs relating to:

- Economic Development and Marketing programs which assist and facilitate economic growth and diversity in the City region;

- City amenities which enhance businesses functionality and operations;
- More intensive road and traffic management

GRV Mullewa (Ex-Mullewa Shire District)

This category is proposed to be introduced effective 1st July 2013, pursuant to Local Government (Financial Management) Regulation 52A(2)(b), and will combine into a single category and apply to all GRV rated properties located in that part of the City of Greater Geraldton district previously included in the district of the Shire of Mullewa. This includes properties previously included in the 2012-13 differential rate categories of GRV Mullewa Townsite, and Mullewa GRV Pindar Townsite.

A rate in the dollar of **11.0172** cents on Gross Rental Value with minimum payment of **$628** is proposed for 2013-14.

The general objects and purposes of this rate and the minimum payment for this differential rating category are as described in the previous section *The City Budget & Revenue from General Rates*. The particular purpose of this category is to raise necessary revenue to support efficient provision of adequate services to GRV rated properties located in the declared town sites of Mullewa and Pindar.

This GRV Ex-Mullewa Shire District differential category serves the purpose of transition to alignment of alike differential rates between the previous Shire of Mullewa and the City within 5 years of declaration of the City, and will cease to exist by 1st July 2016.
Intention is to transition GRV properties in this category to the GRV Residential, GRV Vacant Residential Land, and GRV Non-Residential categories by 1st July 2016, and to align the rate-in-the-dollar of GRV Ex-Mullewa Shire District properties to those categories in progressive stages across the three financial years 2013-14, 2014-15 and 2015-16.

Un-Occupiable City Centre Zone Property

This category will include any City Centre Zone GRV rated property that, as determined by the City, is held for the purpose of being un-occupiable, by being vacant or not leased or occupied or used by more than 25% of its permitted usable area, *by virtue of the property or a substantial majority of the property being unfit for or incapable of occupancy or use for its zoned permitted purposes*.

The City will determine that properties in the City Centre Zone are *held for the purpose of being un-occupiable* by virtue of non-occupation and/or non-use by tenants or occupants or potential tenants or occupants by assessment applying the following criteria:

- Completed building or buildings on the land being vacant or having an aggregate permitted building occupancy or use rate of less than 25% of usable area; or

- 75% or more of usable area of completed building or buildings on the land being unfit for or incapable of occupancy or use for zoned permitted purposes for any of, *or any combination of*, the following factors:

    - Physical deterioration of the building or one or more of the buildings on the land, rendering it/them unfit for zoned permitted occupancy or use; or
    - Failure to remedy reasonably repairable physical deterioration of buildings and/or their electrical, water or sewerage services, deterring or denying permitted occupancy or use; or

- Disconnection of one or more enabling utility services, including electricity, water or sewerage, rendering a building or buildings unfit and denying occupancy or use for zoned permitted purposes; or
- Disconnection or removal of any mandatory fire fighting services or facilities, rendering a building or buildings unfit and so denying occupancy or use for permitted purposes; or
- Boarding up or otherwise enclosing or securing a building or majority portion of a building in such a way as to deter or deny occupancy or use for permitted purposes.

A rate in the dollar of **19.9186** cents on Gross Rental Value will apply for 2013-14.

No minimum payment is proposed for 2013-14.

The general objects and purposes of this rate for this differential rating category are as described in the previous section *The City Budget & Revenue from General Rates*. The particular object of this rate is to create a disincentive for City Centre Zone property owners to allow or cause properties to deteriorate or otherwise become unfit for occupation or use, impairing the commercial functionality and public amenity of the central business district of the City – and thus to provide an incentive for them to do otherwise and activate their properties for occupation and uses consistent with the City Centre Zone.

The particular purpose of this differential rate is to provide funds to be applied to the improvement of public safety, security and amenity in the City Centre.

Differential Rating Categories: Unimproved Value (UV)

UV Geraldton (Rural Mining & Farming General)

This new category includes any UV rated property zoned agriculture and includes any property with a mining tenement lease in that part of the City district previously known as the district of the City of Geraldton-Greenough. This category also includes any undeveloped urban landholdings with development/industry zoning that are valued under the UV methodology. This category replaces the Geraldton UV General Farming and UV Mining categories applied in 2012-13.

A rate in the dollar of **0.6552** cents on Unimproved Values with a minimum of **$979** is proposed for 2013-14.

The general objects and purposes of this rate and the minimum payment for this differential rating category are as described in the previous section *The City Budget & Revenue from General Rates*. This rate reflects the level of rating required to raise the necessary revenue for Council to operate efficiently and provide a diverse range of services and programs for rural areas of the designated part of the City.

UV Mullewa (Rural Mining & Agriculture)

This category includes any UV rated property zoned agriculture and includes any property with a mining tenement lease in that part of the City district previously known as the district of the Shire of Mullewa. The category includes properties covered by the Mullewa UV Agriculture and UV Mining Tenements categories from 2012-13.

A rate in the dollar of **0.8100** cents on Unimproved Values with a minimum of **$683** is proposed for 2013-14.

The general objects and purposes of this rate and the minimum payment for this differential rating category are as described in the previous section *The City Budget & Revenue from General Rates*. This rate reflects the level of rating required to raise the necessary revenue for Council to operate efficiently and provide a diverse range of services and programs for rural areas of the designated part of the City.

Rates Model: Rates in the Dollar (Cents)

Rating Category	2009/10	2010/11	2011/12	2012/13	2013/14
GRV Vacant Residential	8.2753c	8.9042c	16.5555c	17.6647c	18.1151
GRV Residential	8.2753c	8.9042c	9.5809c	10.2228c	10.4835
GRV Non-Residential	8.3351c	8.9686c	9.6502c	10.2968c	10.5594
Geraldton Un-occupiable City Centre Zone Properties	n/a	n/a	n/a	19.4234c	19.9186
UV Farming Geraldton	0.4654c	0.5008c	0.5389c	0.6389c	n/a
Geraldton UV Mining	0.4654c	0.5008c	0.5389c	22.7136c	n/a
NEW: UV Geraldton	n/a	n/a	n/a	n/a	0.6552
GRV Mullewa Townsite	9.886C	10.3300c	10.7432c	10.7432	n/a
GRV Pindar Townsite	12.7316c	13.3042c	13.8362c	13.8362	n/a
NEW: GRV Mullewa	n/a	n/a	n/a	n/a	11.0172
Mullewa UV Agriculture	0.8258c	0.8629c	0.8974c	0.8947c	n/a
Mullewa UV Mining	20.9000c	21.8400c	22.7136c	22.7136	n/a
NEW: UV Mullewa	n/a	n/a	n/a	n/a	0.8100
Specified Area Rate GRV (commercial only) City Centre , Marina Mixed Use and Additional Use City Centre Zones	0.4390c	0.447c	0.4545c	0.4850c	0.4965

Minimum Payments	2009/ 10	2010/ 11	2011/ 12	2012/ 13	2013/14
Geraldton GRV Vacant Residential	$735	$872	$834	$955	$769
Geraldton GRV Residential	$735	$772	$830	$955	$979
Geraldton GRV Non Residential	$735	$772	$830	$955	$979
Geraldton UV Mining	n/a	n/a	$830	$345	n/a
Geraldton UV Farming	$735	$772	$830	$955	n/a
NEW: UV Geraldton	n/a	n/a	n/a	n/a	$979
Mullewa GRV Mullewa Townsite	$307	$321	$334	$384	n/a
Mullewa GRV Pindar Townsite	$80	$83	$90	$104	n/a
NEW: GRV Mullewa	n/a	n/a	n/a	n/a	$628
Mullewa UV Agriculture General	$228	$239	$250	$288	n/a
Mullewa UV Mining	$274	$287	$300	$345	n/a
NEW: UV Mullewa	n/a	n/a	n/a	n/a	$683

Specified Area Rates

Local governments have the power, under Section 6.37 of the Act, to impose specified area rates for the purpose of meeting the cost of a specific work, service or facility on a specific area of its district. A local government may impose a specified area rate if it considers that ratepayers:

- Have or will benefit from;
- Have access or will have access to; and
- Have contributed or will contribute to the need for a work, service or facility.

Local governments are required to use the money from a specified area rate for the purpose for which the rate is imposed in the financial year it was introduced, or place it in a reserve account. A local government may only use money raised to meet the cost of providing that service or to repay money borrowed to meet the cost of the service.

Specified Area Rate – CBD Car Parking

The rating category of Specified Area Rate CBD Car Parking is to be imposed on all non-residential properties within the City Centre, Marina Mixed Use and Additional Use City Centre zones for the purpose of car parking operations which includes land acquisition, parking development, operations, maintenance and any associated financing costs. Loans have been undertaken and revenues are required to meet costs and service the debt to provide car parking initiatives at sites including Chapman Road and Sanford Street.

A rate in the dollar of 0.4965 on Gross Rental Values will be applied to those non-residential properties for 2013-2014 to meet costs to service the debt on loan repayments and operational costs associated with car parking initiatives.

Other Charges – Waste Management

The annual charge for rateable land provided with a Domestic Rubbish Collection Geraldton service will be **$232** per 240 litre bin.
A Commercial Rubbish Collection Geraldton service will be **$282**.

Payment by Instalments

Instalment payment options of either two or four payments will again be available. An administration charge of $10.00 per instalment and interest at the rate of 5.50% on outstanding amounts are proposed.

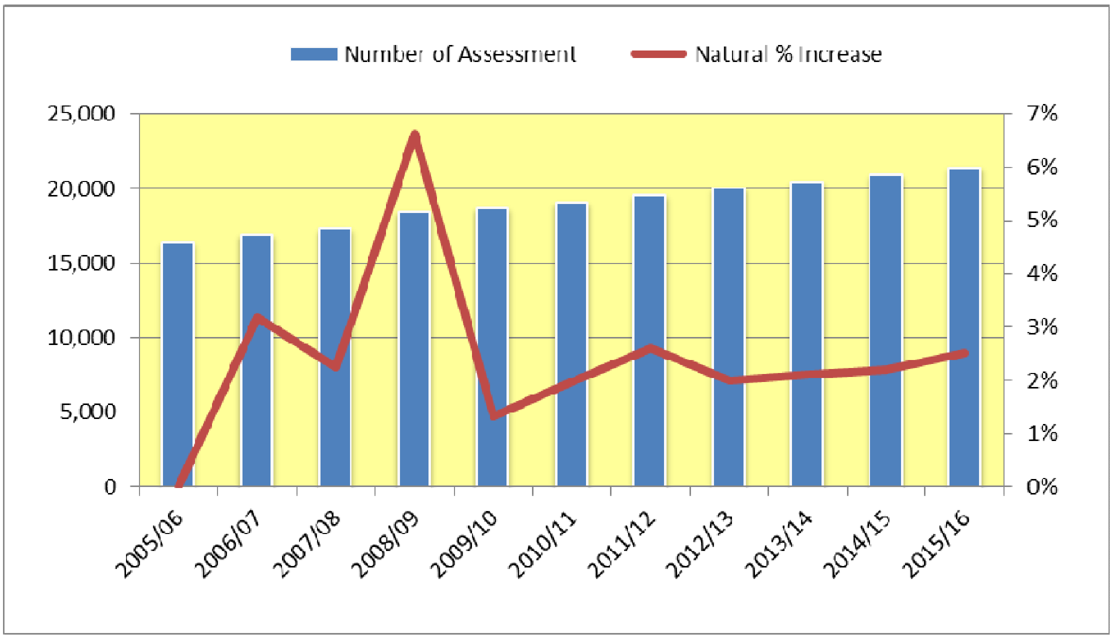
The administration charge is made to cover the additional costs involved in administering the instalment scheme and interest is charged to cover the lost interest on investment opportunity that is not available due to the period over which payment is received.

Penalty interest will also be levied where payment in full or the first instalment is not received with thirty-five days of the issue of the rate notice at the rate of 11% per annum.

Number of Rateable Properties

The following chart shows the actual increase in rateable properties from 2005/06 to 2012/13 and forecasts to 2014/15.

Across the past 5 years, average growth in number of properties has been 2.14% per year.

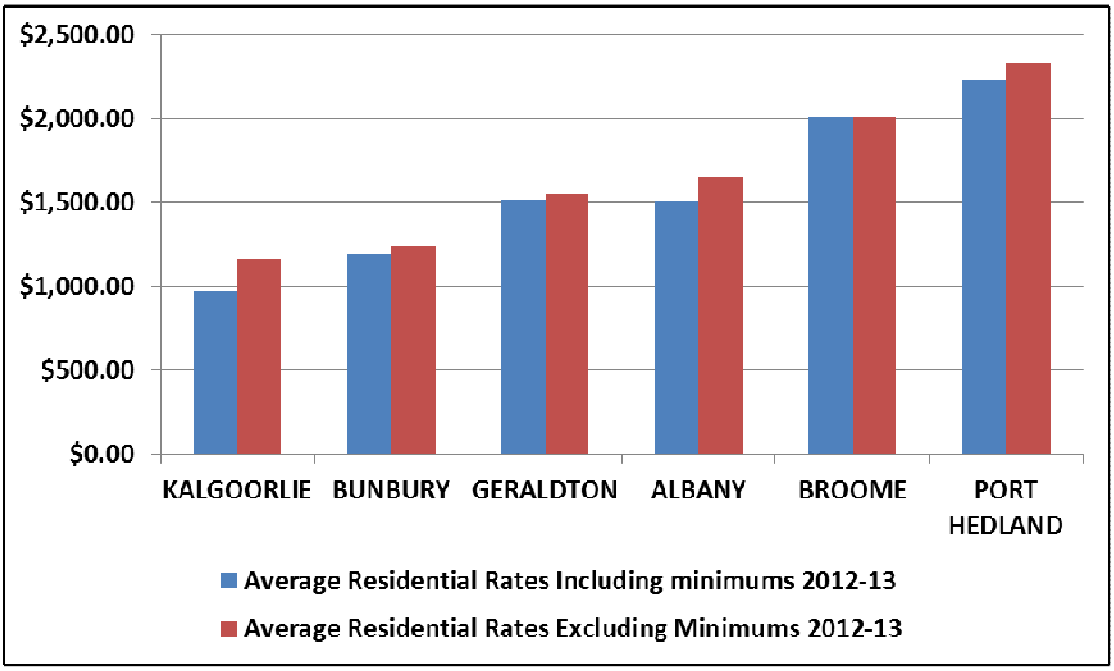


Budget Year	Actual Number Rateable Properties 1st July	Increase in Number	Increase Percentage
2005/06	15,829	0	0
2006/07	16,247	418	2.64%
2007/08	16,632	385	2.37%
2008/09	17,782	1,150	6.91%
2009/10	18,028	246	1.38%
2010/11	18,397	369	2.05%
2011/12	19,458	1,061	5.77%
2012/13	19,557	99	0.51%
2013/14	19,751	194	0.99%

Comparison & Contrast with Other WA Regional Cities

Comparison of 2012-13 'Average' Residential Rates

GRV RESIDENTIAL RATES 2012-13	Average Residential Rates 2012-13 (Including minimums)	Average Residential Rates 2012-13 (Excluding Minimums)
KALGOORLIE	**$971.39**	**$1,166.42**
BUNBURY	**$1,192.78**	**$1,238.34**
GERALDTON	**$1,515.13**	**$1,551.24**
ALBANY	**$1,513.19**	**$1,650.06**
BROOME	**$2,010.64**	**$2,010.64**
PORT HEDLAND	**$2,232.79**	**$2,336.32**



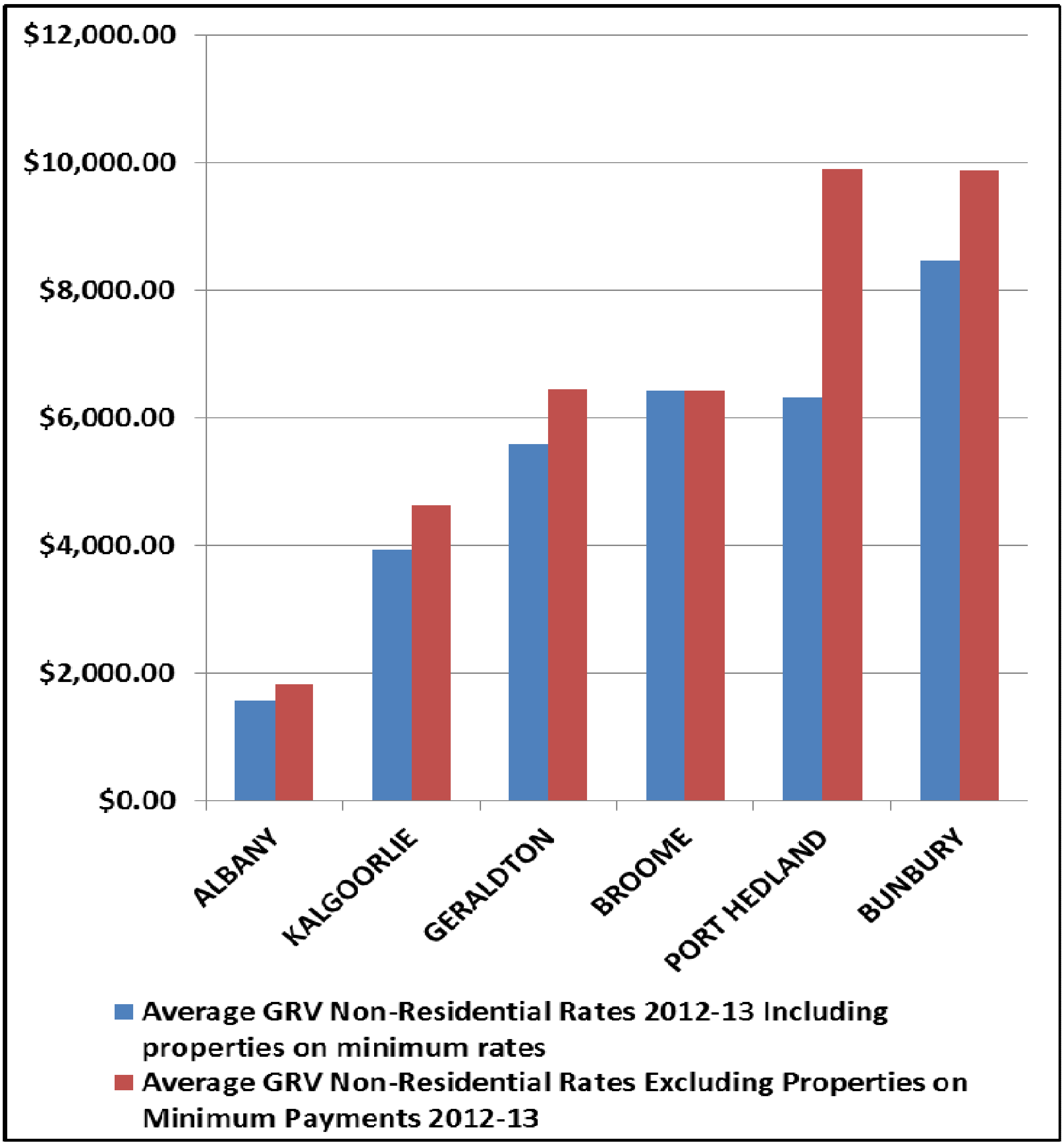
On averages, Greater Geraldton Residential rates are higher than Kalgoorlie and Bunbury, but closely approximate with Albany – although Albany rates are higher for properties actually paying rates as opposed to paying minimum payments.

See the later section on Contrasts between regional cities, for insight into *why* rating levels are different - and not validly comparable – between the cities.

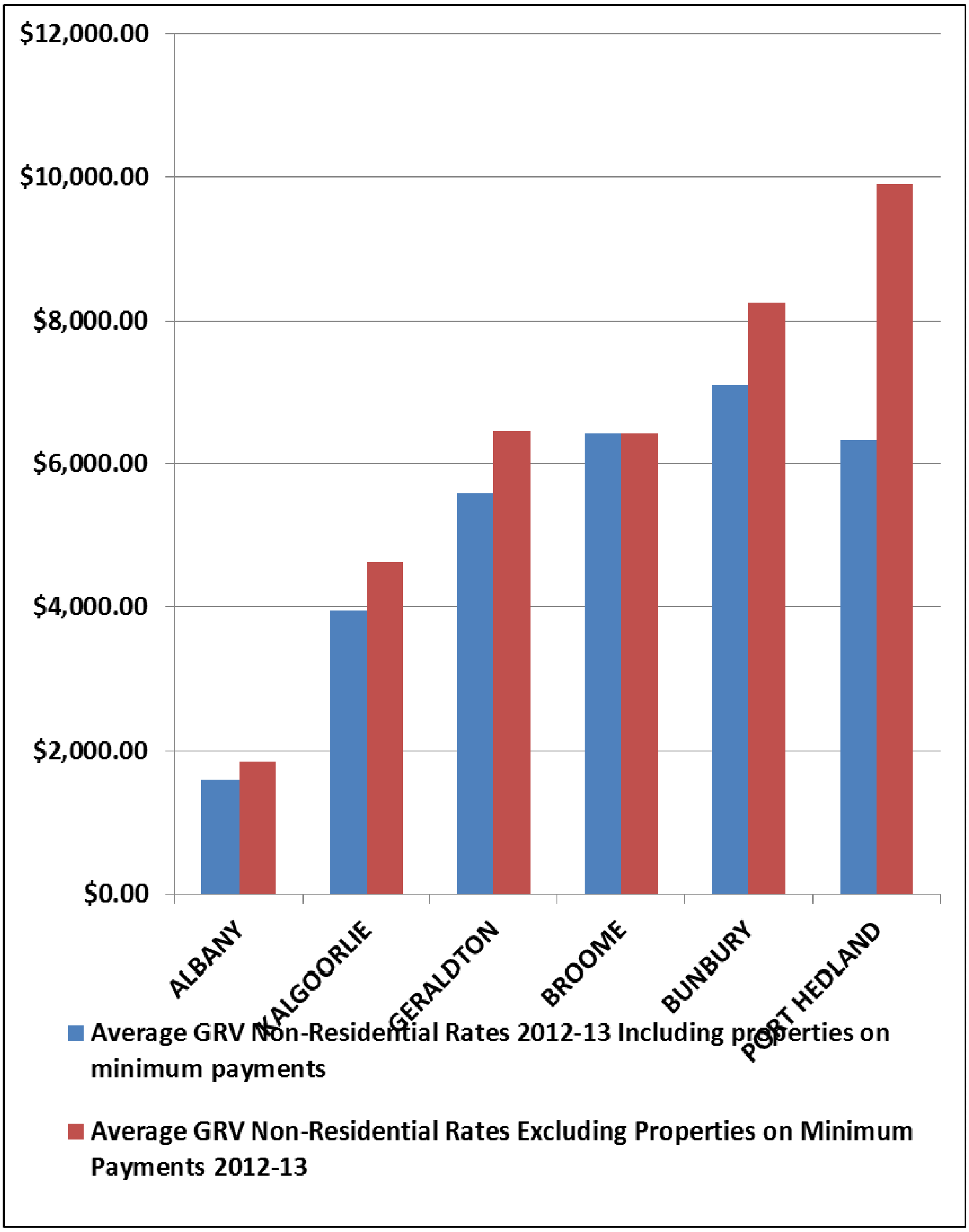
Comparison of Non-Residential 'average' rates is shown in data tables and graphs overleaf.

Comparison of 2012-13 Non-Residential 'Average' Rates

GRV NON-RESIDENTIAL RATES 2012-13	Average GRV Non-Residential Rates 2012-13 Including properties on minimum rates	Average GRV Non-Residential Rates Excluding Properties on Minimum Payments 2012-13
ALBANY	$1,582.35	$1,834.40
KALGOORLIE	$3,948.44	$4,624.53
GERALDTON	$5,591.44	$6,457.72
BROOME	$6,430.13	$6,430.13
PORT HEDLAND	$6,322.79	$9,900.65
BUNBURY	$8,459.27	$9,877.24



GRV NON-RESIDENTIAL RATES Including Bunbury's Vacant Non-Residential category	Average GRV Non-Residential Rates 2012-13 Including properties on minimum payments	Average GRV Non-Residential Rates Excluding Properties on Minimum Payments 2012-13
ALBANY	$1,582.35	$1,834.40
KALGOORLIE	$3,948.44	$4,624.53
GERALDTON	$5,591.44	$6,457.72
BROOME	$6,430.13	$6,430.13
BUNBURY	$7,090.45	$8,242.36
PORT HEDLAND	$6,322.79	$9,900.65



Contrasts with Other Regional Cities

Comparisons based on “average rates” must be seen in the context of the *significant differences* between the regional cities - their populations, their urban/rural mix, their land use profile, and the mix of their district economy – commercial, industrial, mining, tourism, crop farming, pastoral. Comparisons must consider their *consequent* GRV and UV valuation profiles, and rates models.

REGIONAL CITY	Number of GRV Properties Population	Aggregate GRV Value	Average GRV (All Categories)	Number of UV Properties	Aggregate UV Value
ALBANY	**16,185** Population: 35,065	$254,029,239	$15,695	**1,560**	**$798,092,467**
BUNBURY	**15,880** Population: 33,075	**$334,984,506**	$21,095	**0**	**0**
GERALDTON	**18,452** Population: 39,510	$304,096,933	$17,022	1,105	**$401,854,067**
KALGOORLIE	**12,006** Population: 33,067	$283,466,434	$23,610	2,739 (only 64 pastoral, **others mining**)	$25,002,919
PORT HEDLAND	**5,731** Population: 16,349	**$473,716,290**	**$82,659**	445	$6,378,107
BROOME	**4,431**	$181,236,123	**$40,902**	1,100	$92,640,124

Points of <u>Contrast</u> to be recognised:

- **Greater Geraldton**: Urban size - population, more GRV properties, more urban infrastructure and facilities, and a markedly diverse district economy with mixed regional focus on agriculture, export-port/transport-hub/minerals processing/light industry/commerce/services.
- **Bunbury**: Urban and commercial City Centre focus – No UV Rural.
- **Albany**: Substantial Rural UV Value (UV average $511,598 .vs. CGG $354,619).
- **Kalgoorlie**: Mining & Inland Transport and Services Hub (with unique feature - both GRV Mining and UV Mining base).
- **Port Hedland**: Extreme GRV valuations – some UV Pastoral – but mainly Mining, Port, Industry & unique Mass Accommodation (FIFO) focus; Crown Land dominance and development land shortage.

Relative bench-marking requires direct comparison of *alike* entities. What is clear is that there are actually too many *differences* in district land use and valuation profiles, and the structures of the local economies, for any of these regional cities to be validly “benchmarked” against each other. That reality is further accentuated by the Rates Revenue Profiles overleaf.

Regional Cities Differential Rates Revenue Profiles – Budgets 2012-13

Rates	Albany	Bunbury	Kalgoorlie	Geraldton	Port Hedland	Broome
GRV General/ Residential	$21,853,452	$15,308,306	$6,222,852	$20,522,054	$11,008,732	$7,919,905
GRV Vacant NON-Residential	$449,427	**$3,139,906**	0	$138,675 (Un-Occ. City Centre)	0	0
GRV Vacant Residential	0	0	0	$1,842,704	0	$581,100
GRV Industrial/ Commercial	0	**$3,856,546**	$1,441,027	**$7,949,449**	$2,225,404	$4,717,067
GRV City Centre	0	**$4,213,158**	$1,492,952	0	0	0
GRV Tourism	0	0	0	0	0	$2,063,840
GRV Shop Centre	0	0	0	0	$538,709	0
GRV Mass Accomd'n	0	0	0	0	**$2,194,224**	0
GRV Mining	0	0	**$2,462,850**	0	0	0
UV Gen/Agric.	$2,434,304	0	$169,465	$2,881,246	$92,940	$128,333
UV Mining	0	0	**$3,300,101**	$95,696	$966,085	$91,640
UV Other	0	0	0	0	$210,224	$280,551
Revenue GRV Minimums	$2,210,720	$2,054,286	**$5,235,720**	$2,810,676	$550,160	0
Revenue UV Minimums	$259,120	0	$296,334	$133,721	$318,240	0

When comparing/contrasting average rating, interested parties should examine not just the budget papers, but also the annual reports and financial statements of the regional cities, including the section on financial sustainability ratios. This enables assessment of progress (or otherwise) in implementing local government financial management and asset management reforms. City of Greater Geraldton was more advanced in 2012 than other regional cities in implementing 'fair value' accounting for its assets, and increasing fund allocations for asset renewal expenditure.