BACKGROUND TO ANNUAL BUDGETS & CITY REVENUE REQUIREMENTS

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STATEMENT OF OBJECTS OF AND REASONS FOR PROPOSED CITY RATES AND MINIMUM PAYMENTS FOR 2015-16

BACKGROUND TO ANNUAL BUDGETS & CITY REVENUE REQUIREMENTS

The raising of revenue via annual rates is an important source of funds for all Councils throughout Australia. The *Local Government Act 1995* (the Act) empowers WA Councils to impose general rates and minimum payments.

The elected Council will consider the content of its Long Term Financial Plan (LTFP) when preparing the Annual Budget for 2015-16 and subsequent years, and it is expected that adopted budgets will be closely aligned with both the proposals and underpinning assumptions contained within the current LTFP. Review of the LTFP occurs each year as budgets are prepared, to account for performance information and changing circumstances. Aligning annual budgets with the LTFP enables Council to set priorities within its resourcing capabilities to sustainably deliver the assets and the range and level of services required by the community in a fiscally responsible manner.

In 2011, the Department of Local Government introduced the *Integrated Planning and Reporting Framework* to encourage a movement towards Best Practice Strategic Planning and Reporting Standards across the Western Australian local government industry.

A significant component of the Framework is the development of a LTFP to inform the resourcing requirements and financial capacity of a local government to achieve its stated objectives and priorities.

The City's LTFP 2014-2024 is a high level informative strategy that outlines the City's approach to delivering infrastructure and services to the community in a financially sustainable and affordable manner. It also demonstrates the City's commitment to managing its operations in a way that endeavours to avoid unsustainable rate increases for ratepayers. The Plan is aligned to other core planning documents by which the City is accountable to the community, including the Strategic Community Plan and the Corporate Business Plan. Information contained in other strategic plans, including the Asset Management Plan and Workforce Plan, is used to inform the LTFP which forms the basis for preparation of the Annual Budgets.

The LTFP is a dynamic tool which analyses financial trends over a ten year period on a range of assumptions and provides the City with information to assess resourcing requirements to achieve its strategic objectives and to assist the City achieve future financial sustainability.

The existing LTFP covers the period 2014/15 to 2023/24. There is a high level of accuracy in the first 3 years of the LTFP but this is underpinned by a number of assumptions. As Annual Budgets are developed from the LTFP there may be some annual variations between both which will be explained in the Annual Budget.

Financial Strategies and Principles

As a result of population growth, it is predicted that future budgets will be impacted by an increasing demand for services and new infrastructure. Levying rate increases at or below CPI is unsustainable in the long term and in the report to Council (CCS115 – Rates 2015-16 Notice of Intention) Council has given initial endorsement subject to the completion 2015-16 Budget process and development of a new LTFP of an aggregate rates revenue increase of 3.9% which is a significant reduction from the 5.2% (plus growth) increase forecast in the LTFP adopted by Council in 2014. Actual rates revenues in any year might exceed the target increase, as a result of any growth in property numbers and new residential or commercial development, but the extent of such development is dependent on local economic conditions.

Budget surpluses

The City believes that adopting a 'balanced budget' each year will not improve its financial sustainability or liquidity. The current LTFP estimates the City's net deficit operating position after ordinary activities at $6.85m for 2014-15. To keep pace, without going backwards, the City must raise sufficient funds to meet the costs of replacing essential infrastructure and facilities, as they wear out, and cover the costs of inflation on materials and services, and escalation of State Government fees and charges. The proposed LTFP strategy is based on gradually moving out of the current deficit position and achieving a positive surplus position within an acceptable and sustainable timeframe.

Cost recovery of services

Discretionary fees and charges are planned to increase by approximately 5% to match estimated additional costs in service delivery. The City does not currently recover the full cost of providing all of its services because a number of these services are subsidised as they are community and socially based. As well, within function areas relating to building licences, planning and development approvals, and health approvals, the City is limited by statutory regulations preventing full cost recovery of these services.

Prudent use of debt finance

The LTFP gives consideration to optimum timing to take advantage of loan finance, where the cost of fixed interest loans is lower than fixed term investment rates. Such conditions currently apply and are expected to continue within the short term. The purpose and timing associated with the use of loan finance is aligned to the following principles:

- To support major infrastructure projects which will have significant community based and economic benefits. The Karloo-Wandina project is a prime example of such investment into the community, delivering key road infrastructure and affordable and social housing lots.
- Development of revenue producing infrastructure (e.g. paid parking)
- The use of credit facilities to finance land held for resale that will generate a positive rate of return back to the City.

Cash reserves

Consistent with the approach adopted by Council after amalgamations, the 2013-14 budget formulation process included a review of all reserve accounts, with the view to reducing the number of reserve accounts to the minimum necessary for specific legal compliance obligations. The objective was to reduce the number of discretionary reserves and return to the municipal account any residual funds not required to either meet immediate needs per the purposes of each particular discretionary reserve, or to satisfy a specific statutory obligation.

Land Development

The City currently holds or is in the process of acquiring land stocks which it develops for sale to produce profits in order to reduce the rates burden on ratepayers. As opportunities arise and through utilising State Government land arrangements, the City will continue to hold land for resale provided that the associated business cases show a positive benefit to the community.

Key Assumptions Underpinning the Long Term Financial Plan

The estimates in the LTFP are based on a number of assumptions and Council strategies.

The following overarching assumptions and strategies will now underpin the development of a new LTFP:

- Reduce aggregate rate revenue increase to below 5.2% as per current LTFP (targeting only +3.9% for 2015-16).
- Increases in revenue from rates, fees and charges should be smoothed to avoid revenue raising shocks to the community.
- Generate enough revenue to renew assets as they wear out.
- Make sure the City does not take on too much debt, leaving Council with the ability to manage unexpected peaks in capital expenditure that may result from emergency works, or beneficial opportunities to access capital funding grants.
- Cash flow should be sufficient to meet the Councils day to day operations and provide liquidity levels that ensures Council can continue paying for its immediate expenses without additional cash flow for a period of 1 to 1.5 months.
- New organisational structure will realise $2.7m savings to Council from 2015-16.
- Freeze will remain on Financial Assistance Grants until 2016-17.
- Reduced funding from the State Government for roads.

Property Valuations & Rates

The dollar amount of annual rates payable on a property is calculated by multiplying the valuation of the property, by a rate-in-the-dollar (set by Council) relevant to the particular property.

In Western Australia, for the purposes of local government rates and certain State government purposes, property is valued by Landgate Valuation Services, on behalf of the State Valuer General. Valuation data is forwarded to each Local Government.

Two types of valuations are undertaken:

- Gross Rental Value (GRV) for non-rural property, and subject to periodic revaluations by the Valuer General, who determines the elapse time between revaluations; and
- Unimproved Value (UV) for land used primarily for rural purposes, and subject to *annual* revaluations by the Valuer General.

In recent times, GRV revaluations were undertaken by the Valuer General on a 4-yearly cycle, with revaluations in 2008 and 2011-12. After lobbying from Local Governments the Valuer-General agreed to reduce the cycle to 3 years. New GRV valuations will therefore be applied from 1 July 2015.

Differential Rates

Section 6.32 of the Act empowers Councils to impose a general rate on rateable land in its district, authorising a Council to determine whether the general rate will be applied uniformly, or differentially, and also authorising Councils to impose specified area rates and minimum payments. Section 6.32(2) requires Councils to express rates in terms of a rate-in-the-dollar of the GRV or UV of property, as appropriate.

Section 6.33 of the Act provides that Differential rates may be imposed according to any, or a combination, of these characteristics:

- purpose for which land is zoned; or
- purpose for which land is held or used as determined by the local government; or
- whether or not the land is vacant land; or
- any other prescribed characteristics.

Local Government (Financial Management) Regulation 52A provides that, for a period of not more than 5 years after declaration of a new local government district, these additional characteristics are prescribed:

- whether or not land is situated in a Townsite; or
- whether or not land is situated in a particular part of the district.

Based on application of the characteristics above, the City imposes differential general rates, as described in the following sections, designed to meet revenue requirements to provide necessary funds for infrastructure, facilities and services across different property categories.

For example, residential zoned land in Geraldton shares urban roads, footpaths, street lighting, local parks, and immediate access to urban community facilities, parks, playing fields etc; whereas farming zoned land shares rural roads, but without street lighting nor close access to urban facilities and services, and so on.

The nature and cost of infrastructure, facilities and services – and associated costs – differs across categories of properties. Differential rating across GRV and UV properties thus endeavours to reflect average distribution of costs across the diverse spectrum of zoning, and the allowed and actual uses of properties, reflecting envisaged usage and access to infrastructure, facilities and services across the district.

Following the merger of Shire of Mullewa and City of Geraldton-Greenough to create the City of Greater Geraldton, under the Governor's Orders gazetted for the amalgamation, the City is obliged within 5 years of declaration of the new City to bring the rates across the previous local government districts into alignment.

By 1 July 2016 this will see progressive alignment of rates-in-the-dollar for alike differential rating categories, and staged phasing out of some categories as alignment is achieved.

STATEMENT OF OBJECTS OF AND REASONS FOR PROPOSED RATES AND MINIMUM PAYMENTS FOR 2015-16

Proposed Differential Rates and Minimum Payments for 2015-16

Section 6.36 of the *Local Government Act 1995* requires Council to give local public notice of its intention to impose Differential Rates and Minimum Payments, inviting submissions from electors and ratepayers.

The City publishes the required public notice in *The Geraldton Guardian, The Mid West Times*, and on its website, and exhibits the notice at its Civic Centre offices in Cathedral Avenue, Geraldton, at its Mullewa District Administration Office and the Library included in the same building, and at the Geraldton Library located in Marine Terrace.

This document describes the *objects of and reasons for each proposed differential rate and minimum payment,* required to be made available for inspection by electors and ratepayers per section 6.36(3)(c) of the Act. The document is made available on the City website, and hardcopies of the public notice and this document are made available at the sites noted above.

The City Budget will not be finalised nor adopted until *after* consideration by Council of any elector and ratepayer submissions, pursuant to Section 6.36(4) of the Act. The Act empowers Council to adopt differential rates or minimum payments *different* from those published in the public notice, and Local Government (Financial Management) regulations require that, if a Council does adopt any differential rates or minimum payments that *are* different from those set out in the public notice, then its adopted Budget must include a statement of the rates and minimum payments as were set out in its public notice, with a statement of reasons for adopting any different rates.

2015 is a revaluation year for Gross Rental Value (GRV) properties, with new valuations provided by the State Valuer-General to apply from 1st July 2015 for the 2015-16 fiscal year and for the following two fiscal years. The time between GRV valuations is three (3) years, the previous valuation having been undertaken in 2011-12. Effective assessment time for valuations is August of the year in which the revaluation process is initiated, to apply for the following financial year. GRV valuation rolls for the City were received from Landgate on 14th May 2015.

General Valuation Summary for City of Greater Geraldton (GRV) 2015:

- Date of Valuation 1st August 2014.
- Date of coming into force 1st July 2015.
- In respect of Gross Rental Values (GRV's) for the Local Authority of Greater Geraldton, the following statistics are provided for your assistance:-

		% Inc/Dec	Values	Agg.Values	% of Total
o **Residential**	+	2.95%	15189	$231,382,430	68.73%
o **Commercial**	-	3.72%	578	$ 45,531,057	13.52%
o **Industrial**	+	24.27%	575	$ 39,497,357	11.73%
o **Vacant Land**	-	1.34%	2489	$ 19,617,077	5.83%
o **Misc.**	+	27.70%	21	$ 638,202	0.19%
TOTALS	+	**3.84%**	**18852**	**$336,666,123**	**100.00%**

N.B Aggregate GRV values per the property roll total $338,870,169, including properties without a previous GRV valuation. Hence the data above just indicates the movement in values of properties on the previous roll, between general valuations.

Note that properties are valued by Landgate according to property zoning, not by the City's differential rating categories. For example, property zoned commercial or industrial will generally fit into the Non-Residential differential rating category for the City.

City of Greater Geraldton – Rural Assessments (UV) 2015:

- Total Valuation $407,732,696
- Average Overall Change (Reduction) 0.6%

Summary:
Properties located on the outskirts of Geraldton and suitable for long term development have seen a decline in values due to lack of demand for residential sites and consequently in-globo development lots.

Otherwise there has been no significant change to unimproved values effective 30 June 2015. This is a reflection of the limited market activity for properties across all size ranges in the period leading up to the revaluation.

Council Considerations

In its deliberations, prior to formally adopting the budget and imposing rates and minimum payments, Council will consider any submissions received and, as part of its due diligence processes, may also consider any new information on any budget-related matters not available to it at the time of giving public notice of intention to impose proposed rates and minimum payments.

That may include, for example, Council consideration of any updated advice on inflation forecasts for 2015-16, any changes to forecast changes to costs of State Government utilities including electricity tariffs, street lighting, water or sewerage, or any changes related to any of the local government recurrent grants or any other Federal or State funds forecast to be received – or any other relevant matters. Changes may also result from due diligence assessment of minimum payments, associated with a final proposed rating model, to ensure compliance with section 6.35 of the Act. In addition, Council consideration is to be given to lawfully available mechanisms that smooth the impact of significant spikes in rates payable, as a result of new property valuations.

Movements in GRV Residential and Non-Residential Property Valuations

Initial analysis of the new GRV valuations for the Geraldton area to take effect from 1 July 2015 indicates that there has been a significant range of increases and decreases across suburbs/localities. At detail level, the range of increases/decreases is even more pronounced, individual property by property, both across and within suburbs. The diverse range of changes is widely spread.

The perennial problem confronting all Councils is how to address the issue of a diverse mix of very extensive positive and negative revaluations, with wide ranging changes. A consistent, standardised mix of revaluations across the broad GRV and UV categories would be relatively easy to deal with, but unfortunately that is not the reality confronting Councils, and particularly so for Councils that have differential rates.

In the simplest terms, rates payable is calculated by multiplying Valuation by Rate-in-the-Dollar (RiD). Even if RiD remained constant year to year, any property owner with an increased Valuation would pay increased rates.

Mechanism to Smooth the Effects of Spikes in Upward GRV Property Revaluations

Valuations are undertaken every 3 years by the Valuer-General and can cause significant dollar range movement in GRV revaluations. This may result in some ratepayers having significant spikes in rates payable, even where a relatively low increase in Rate in the Dollar is applied. On advice from the Department of Local Government the City is able to use the provisions of section 6.31 of the Act, and its related Schedule 6.1, to phase in the effects of GRV valuation increases, over 3 years. The mechanism is simple: instead of applying 100% of the revalued increase in GRV for a property, the GRV increase is phased in by thirds, over 3 years. For any property where GRV has decreased, the whole decrease is immediately applied from 1 July of the revaluation effect year.

The phasing in mechanism would provide a sound way to reduce significant impacts on individual ratepayers with significant GRV increases on their properties, while still enabling rates in the dollar to be applied to achieve the aggregate rates revenue increase target of +3.9%, demonstrating the strong sensitivity of Council to prevailing local economic circumstances. Rates modelling for this approach will inform Council, prior to consideration of the Budget and final determination of rates for 2015-16.

Ratepayer Right to Object to Land Valuation:

The Valuation of Land Act 1978 makes provision for ratepayers to object to the valuation of their property. Advice from Landgate as to the process is as follows:

> Should a ratepayer have a valuation query which your staff cannot answer, it would be of assistance to us if your staff could encourage the ratepayer to discuss the matter with us by telephone or e-mail prior to lodging a formal objection.
>
> For enquires regarding the valuation roll or any other valuation related issues, the following contact list is provided for your assistance.
>
> - Jovanka Vicentic (Senior Valuation Information Officer) 92739466
> - Sam Scuderi (District Valuer) 92739448
> - Phil Edwards (Chief Valuer-Country) 92739454

Valuation of properties under the Valuation of Land Act 1978 is the responsibility of the State's Valuer-General, and is undertaken by Landgate at intervals determined by the Valuer-General. For rating purposes, the Local Government Act mandates that Councils must use the valuations provided by the Valuer-General. Importantly however, ratepayers need to understand that neither the conduct nor the timing of property valuations are the responsibilities of Local Governments. Valuations are done at arms-length from Councils by Landgate for the Valuer-General. Hence, City staff cannot provide information or advice relating to the valuation of any particular property and as such, ratepayers with valuation queries are referred to Landgate.

PROPOSED DIFFERENTIAL RATES FOR 2015-16

Local public notice was first given on 29th May 2015 of intent to impose these proposed rates and minimum payments, inviting submissions from Electors and Ratepayers by 5:00pm on 20th June 2015. Submissions may be:

- *mailed to the City at PO Box 101, Geraldton WA 6531; or*
- *submitted by email to:* CityBudget2015-16@cgg.wa.gov.au

The following tables detail the current 2014-15 and the proposed 2015-16 differential rates-in-the-dollar and minimum payments:

Table 1: Current Differential General Rates & Minimum Payments (2014-15)

Differential Rate Types	Rate-in-the-dollar (Cents)	Minimum Payments $
CGG Residential	10.9371	$1,010
Non-residential GRV	10.9385	$1,010
UV Geraldton Rural Mining & Farming General	0.6794	$1,010
UV Mullewa Rural Mining & Agriculture	0.7800	$705
GRV Ex-Mullewa Shire District	10.9795	$628

Table 2: Proposed Differential General Rates & Minimum Payments (2015-16)

Differential Rate Types	Rate-in-the-dollar (Cents)	Minimum Payments $
CGG Residential	11.1208	$1,010
Non-residential GRV	10.3359	$1,010
UV Geraldton Rural Mining & Farming General	0.7032	$1,010
UV Mullewa Rural Mining & Agriculture	0.7573	$860
GRV Ex-Mullewa Shire District	11.1866	$600

Statement of Objects & Reasons for Differential Rates:

CGG Residential GRV

This category will include any GRV rated 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 used for residential purposes.

This rating category 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 and associated infrastructure/facilities required for developed residential and urban areas of the designated part of the City.

Non Residential GRV

This category will include any GRV 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 used for non-residential purposes other than rural purposes.

The general objects and reasons for this differential rate on Non Residential properties is, in addition to the level of rating required to raise the necessary revenue for Council to operate efficiently and provide the diverse range of services and programs and associated infrastructure/facilities required for developed urban areas, 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 Ex-Mullewa Shire District

This category will include any GRV rated property within the previous district of the Shire of Mullewa.

This rating category is to raise necessary revenue to provide the diverse range of services and programs and associated infrastructure/facilities required for developed residential and urban areas of the designated part of the City in the declared town sites of Mullewa and Pindar.

This GRV Ex-Mullewa Shire District differential category serves the purpose and gives consideration to the transition towards alignment of alike differential rates between the previous Shire of Mullewa and the City of Geraldton by 1st July 2016.

UV Geraldton Rural Mining & Farming General

This category includes any UV rated property in that part of the City district previously known as the district of the City of Geraldton-Greenough.

This rating category 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 including infrastructure to this designated part of the City.

UV Mullewa Rural Mining & Agriculture

This category includes any UV rated property in that part of the City district previously known as the district of the Shire of Mullewa.

This rating category 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 including infrastructure to this designated part of the City.

Specified Area Rate: Specified Area - Parking

Local governments have the power, under Section 6.37 of the Local Government Act 1995, 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.

The City of Greater Geraldton imposes a Specified Area Rate on all non-residential properties within the City Centre, Marina Mixed Use and Additional Use City Centre zones for the particular purpose of provision of funds for car parking operations which includes land acquisition, vehicle parking area development, parking operations, maintenance and any associated financing costs. Funds generated from this "Rate" are transferred and held in a Parking Land Cash Reserve. The expected balance of this Reserve as at 30 June 2015 is $536,187.

A rate in the dollar of 0.5880 cents on Gross Rental Values is proposed to be applied to those commercial properties for 2015-16 based on 3.9% increase.

Ken Diehm
Chief Executive Officer 28th May 2015