BACKGROUND TO ANNUAL BUDGETS & CITY REVENUE REQUIREMENTS

&

STATEMENT OF OBJECTS OF AND REASONS FOR PROPOSED CITY RATES AND MINIMUM PAYMENTS FOR 2016-17

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 2016-17 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 2015-2025 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 2015/16 to 2024/25. 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 (CCS183 – Rates 2016-17 Notice of Intention) Council has given initial endorsement subject to the completion 2016-17 Budget process and development of a new LTFP of an aggregate rates revenue increase of 2.9% (plus growth) in year 1 and 3.5% (plus growth) years 2 to 10. This represents a significant reduction from the 3.9% (plus growth) year 1 to 10 increase forecast in the LTFP adopted by Council in 2015-16. This reduction is in on top of Council's decision in 2015-16 to reduce the annual rate revenue increase in the LTFP from 5.2% to 3.9%. These reductions in rate increases have been achieved through savings identified via organisational restructure and reduction in staff costs, ongoing efficiency gains and reduction in the range and level of services provided by Council. These actions have provided a reduction of $5.93m to the City's budget.

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 which is supported by the current revised estimates of the City's net deficit operating position after ordinary activities of $7.42m for 2015-16. The plan is based on gradually moving out of this deficit position and achieving a positive surplus position within a fiscally responsible timeframe.

Cost recovery of services

Discretionary Fees and Charges revenue is based upon a unit rate increase of 5% per annum plus an activity growth factor of 0.6% to 0.7% to match estimated additional costs in service delivery. The City does not currently recover the full cost of providing all of its services as a number of these services are sub-vented as they are community and socially based. In Year 1 and 2 of the plan the overall revenue increase has been lowered to a growth factor of 3.5% in consideration of reduction in activity levels in some significant revenue streams such as airport passenger numbers and development activity.

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 Beresford Foreshore Coastal Protection & Enhancement and

Airport Runway Extension projects are prime examples of such investment into the community and local economy, protecting key existing infrastructure and delivering on new key infrastructure.

- 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

As per the adopted budget of 2013-14 all discretionary reserve accounts have been closed. The minimum reserve accounts necessary for specific legal compliance obligations have been retained.

Land & Property

In the City's current LTFP and over its life the plan had recognised $21.5m of revenue generated from land & property sales. The new proposed LTFP removes this budgeted revenue on the basis of the high level of uncertainty and risk associated with not realising these sales that would significantly impact on achieving benchmark indicators. This City will continue in its effort to realise these sales over the life of the plan and any revenue generated will be applied either to servicing debt, increasing the level of capital renewal or replacement expenditure and funding new and high prioritised emergent capital projects.

Key Assumptions Underpinning the Long Term Financial Plan

In response to concerns raised by the Community, the Mayor, and Councillors, a new long term financial planning scenario has been developed that will see future rate increases reduced by 1% in year one (2016-17) and by 0.4% in years two to ten – as compared to the currently adopted Long Term Financial Plan.

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

- Reduce aggregate rate revenue increase in Year 1 to 2.9% (plus growth) and years 2 to 10 the increase per annum would be 3.5% (plus growth). The City's current LTFO (2015-25) was based on an increase of 3.9% per annum (plus growth).
- Growth in annual rate base will continue per annum to be at least 1% or estimated in accordance with current growth.
- 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.
- Continual positive movement and achievement of all financial and sustainability ratio benchmarks within the life of the new LTFP.
- The plan delivers a net operating surplus from ordinary activities within ten years.
- Savings of $3.23m are to be built into the LTFP for 2016-17.
- Freeze will remain on Financial Assistance Grants until 2017-18.

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 (every three years) by the Valuer General; and
- Unimproved Value (UV) for land used primarily for rural purposes, and subject to *annual* revaluations by the Valuer General.

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 and under 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 the final alignment of rates-in-the-dollar for alike differential rating categories, and phasing out of some categories as alignment is achieved.

STATEMENT OF OBJECTS OF AND REASONS FOR PROPOSED RATES AND MINIMUM PAYMENTS FOR 2016-17

Proposed Differential Rates and Minimum Payments for 2016-17

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 (City Budget 2016-17), 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 was a revaluation year for Gross Rental Value (GRV) properties, with new valuations provided by the State Valuer-General applied from 1st July 2015 for the 2015-16 fiscal year and for the following two fiscal years. Effective assessment time for valuations is August of the year in which the revaluation process is initiated and to be applied in the following financial year.

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 2016-17, 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.

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 2016-17

Local public notice was first given on 27th May 2016 of intent to impose these proposed rates and minimum payments, inviting submissions from Electors and Ratepayers by 5:00pm on 17th June 2016. Submissions may be:

- *mailed to the City at PO Box 101, Geraldton WA 6531; or*
- *submitted by email to:* CityBudget2016-17@cgg.wa.gov.au

The following tables detail the current 2015-16 and the proposed 2016-17 differential rates-in-the-dollar and minimum payments:

Table 1: Current Differential General Rates & Minimum Payments (2015-16)

Differential Rate Types	Rate-in-the-dollar (Cents)	Minimum Payments $
CGG Residential	11.3506	$1,010
Non-residential GRV	10.7071	$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	11.3804	$600

Table 2: Proposed Differential General Rates & Minimum Payments (2016-17)

Differential Rate Types	Rate-in-the-dollar (Cents)	Minimum Payments $
CGG Residential (Includes GRV Residential Ex-Mullewa Shire District)	11.4991	$1,010
CGG Non-Residential (Includes GRV Non-Residential Ex-Mullewa Shire District)	10.9956	$1,010
CGG UV (Ex Geraldton Rural Mining & Farming General and Ex Mullewa Rural Mining & Agriculture)	0.7236	$1,010

Rates Modelling (2016-17):
The proposed rates model is based on the following:

- Alignment of differential ratings categories per Governor's Orders gazetted for the amalgamation following the merger of the Shire of Mullewa and the City of Geraldton-Greenough. This alignment is to be finalised as at 1st July 2016. Rating categories will be reduced from five to three. The new proposed categories are:
  - CGG Residential
  - CGG Non Residential
  - CGG UV
- Key principle (endorsed by Council March 2016) of the Long Term Financial Plan of a 2.9% (plus growth) increase in aggregate rate revenue 2016-17. Current rates modelling based on the proposed RID's and minimum generates overall revenue of $42,558,155 which represents an increase of 4.27% in relation to the rates levied in 2015-16.
- Concessions applied to Residential Properties as applied in 2015-16 but reduced from two thirds to one third in 2016-17.

Statement of Objects & Reasons for Differential Rates:

Alignment of the different rating categories (residential, non-residential & rural) per Governor's Orders gazetted in relation and following the amalgamation of the Shire of Mullewa and the City of Geraldton-Greenough. This alignment is required to be finalised by 1st July 2016. Previously, there was five rating categories now there will be only three.

CGG Residential

This category will include any GRV rated property in that part of the City district (including that part of the City previously being GRV Ex Mullewa Shire District) 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.

How does that affect me?

Residential Properties:

- For residential properties in Geraldton who did not receive a concession in 2015-16 and the amount rates you paid this year was $2,000, the proposed increase by Council would see you pay $2,026 in 2016-17 a 1.31% increase. Minimum payments will remain the same at $1,010 and unless you have built a new house or made improvements to your property in 2015-16 which resulted in a revaluation of the property you will pay the same minimum payment in 2016-17.
- For residential properties in Mullewa it is proposed that you will levied by the same rate in the dollar and be applied the same minimum payment as Geraldton residential properties in 2016-17. If you paid rates in 2015-16 that exceeded $1,010 your increase will be 1.04%. In dollar terms if you paid $1,100 in 2015-16 the proposed increase would see you pay $1,011.44 in 2016-17. If you paid rates that were less than $1,010 your increase could be somewhere between $1 to $410. Why such a big increase for some ratepayers? To align with Geraldton, the minimum payment you paid in 2015-16 of $600 is intended to be increased to $1,010 in 2016-17.

CGG Non Residential

This category will include any GRV property in that part of the City district (including that part of the City previously being GRV Ex Mullewa Shire District) 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 on an equitable basis raise the necessary revenue for Council to operate efficiently and provide the diverse range of services and programs and associated infrastructure/facilities required for commercial and industrial areas.

- For Non-Residential properties in Geraldton if you paid $2,000 in rates in 2015-16, the proposed increase by Council would mean that in 2016-17 you would pay $2,054 an increase of 2.7%. It is intended that minimums would remain at the current same level of $1,010.
- For Non-Residential properties in Mullewa it is proposed that you will levied by the same rate in the dollar and be applied the same minimum payment as Geraldton Non-Residential properties in 2016-17. If you paid rates in 2015-16 that exceeded $1,010 you will have a decrease in 2016-17 of 3.5%. In dollar terms if you paid $1,100 in 2015-16 then it is proposed you would pay a lesser amount of $1,062.80 in 2016-17. If you paid rates that were less than $1,010 your increase could be somewhere between $1 to $410. Why such a big increase for some ratepayers? To align with Geraldton, the minimum payment you paid in 2015-16 of $600 is intended to be increased to $1,010 in 2016.

CGG UV

This category amalgamates UV rated properties that were previously rated under the categories UV Geraldton Rural Mining & Farming General and UV Mullewa Rural Mining & Agriculture into one.

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.

- For UV properties in Geraldton if you paid $2,000 in rates in 2015-16, and have been unaffected by the annual revaluation, the proposed increase by Council would mean that in 2016-17 you would pay $2,058 an increase of 2.9%. It is intended that minimums would remain at the current same level of $1,010.
- For UV properties in Mullewa it is proposed that you will levied by the same rate in the dollar and be applied the same minimum payment as Geraldton UV properties in 2016-17. If you paid rates in 2015-16 that exceeded $1,010 you will have a decrease in 2016-17 of 4.5%. In dollar terms if you paid $1,100 in 2015-16 and have been unaffected by the annual revaluation of your property then it is proposed you would pay a lesser amount of $1,052.63 in 2016-17. If you paid rates that were less than $1,010 your increase could be somewhere between $1 to $150. Why such a big increase for some ratepayers? To align with Geraldton, the minimum payment you paid in 2015-16 of $860 is intended to be increased to $1,010 in 2016-17.

Concessions

In response to residential properties revaluations that were applied in 2015-16 which resulted in large spikes to property valuations in certain areas within Geraldton, Council (a first in WA) developed and introduced a concessional system to residential ratepayers in 2015-16 to help smooth the impact of property revaluations. The concession applied in 2015-16 was equivalent to two thirds of the rates increase directly attributed to any valuation increase. In 2016-17 the concession equivalent will be one third of the rate increase as attributed to the valuation increase in 2015-16. What does this equate to in dollar terms in 2016-17 as compared to 2015-16? If your concession on your rates was $100 in 2015-16 then in 2016-17 the concession will be $50. So in 2015-16 and before the concession, if rates levied against your property was $2,100, then less the concession provided the amount payable by you would have been $2,000. In 2016-17 and allowing for a rate increase the rate levied against your property would be $2,127 less concession of $50, the amount payable by you would be $2,077.

Ken Diehm
Chief Executive Officer 25th May 2016