

## 16.1 DRAFT DIFFERENTIAL RATES MODEL – 2015/16 FINANCIAL YEAR

<b>File No:</b>	<b>RV.10</b>
<b>Responsible Executive Officer:</b>	<b>Director Corporate Services</b>
<b>Reporting Author:</b>	<b>Manager Financial Services / CFO</b>
<b>Date of Report:</b>	<b>14 May 2015</b>
<b>Applicant/Proponent:</b>	<b>Nil</b>
<b>Disclosure of Interest:</b>	<b>Nil</b>
<b>Attachment(s):</b>	<b>Objectives and Reasons for Proposed Differential Rates</b>

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### **PURPOSE**

To consider the draft differential rates model for 2015/16 financial year for the purpose of advertising and seeking public submissions as required by the *Local Government Act 1995*.

### **BACKGROUND**

Before Council can establish a differential rating model, Council must advertise the proposed differential rate for a minimum period of 21 days. This period of advertising allows ratepayers to consider the proposed rates and make any submissions prior to Council adopting differential rates as part of the budget approval process. The advertising process does not prevent Council from amending the rate model at Budget adoption.

Additionally, under the *Local Government Act 1995*, Council must seek approval from the Minister of Local Government to raise the differential rate where the highest differential rate is more than twice the lowest differential rate in each category and also where more than 50% of properties in a category are on a minimum rate.

In 2014/15 Council's total rate income was derived from the following categories:

- Residential properties	43%
- Transient Workforce Accommodation	18%
- Commercial/Industrial properties	17%
- Strategic Industry	14%
- Other categories	8%

Council regularly reviews the proportion of the rate income coming from each category in order to ensure that all property owners make a fair contribution to rates and to minimise the impact that rates have on residential and commercial ratepayers. The proposed rate model for 2015/16 seeks to derive rates at the same proportion as those listed above.

Landgate performs a general revaluation of all properties in the district every three years and the 2015/16 rates are impacted by the general revaluation that was completed this year. As a result there has been significant changes in valuations across most categories and within categories, which are highlighted in the following table:

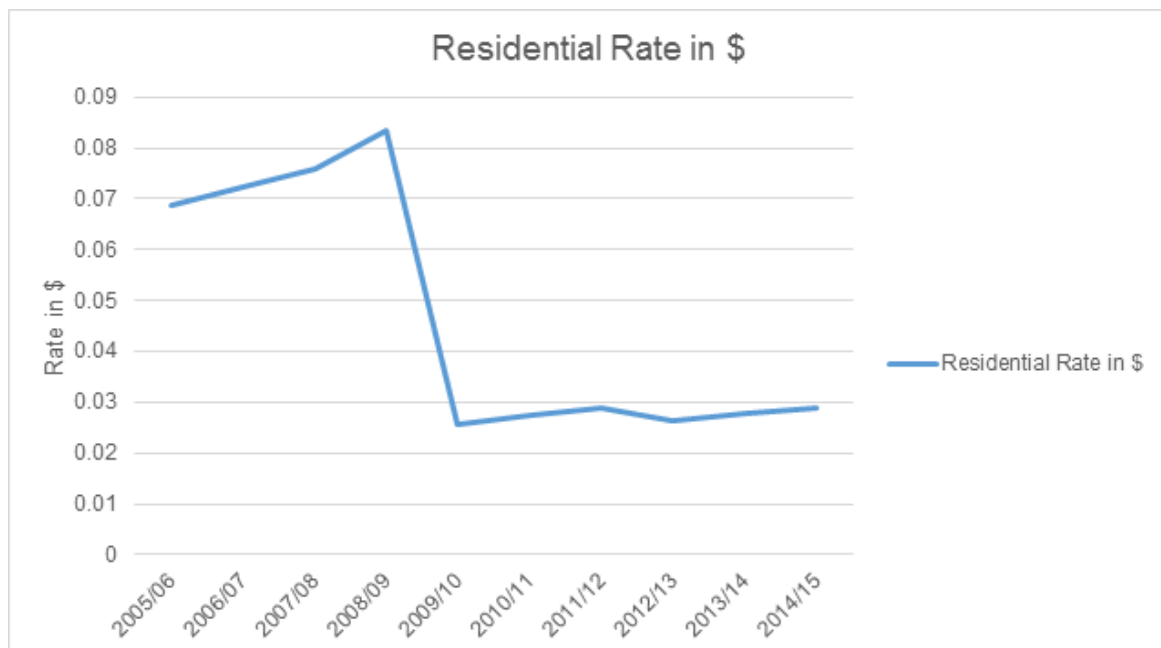
**Table 1**

Category	Actual aggregate valuation %Inc/Dec	Indicative aggregate valuation %Inc/Dec*
Residential (GRV)	-52%	
Commercial (GRV)	-22.3%	
Industrial (GRV)	+0.4%	
TWA (GRV)		-42%
Strategic Industry (GRV)		-17%
Pastoral (UV)		-56%
Mining/Other (UV)		-7%

\*Landgate is expected to provide the required valuation data for these categories by the end of May.

Council’s rates are determined by calculating the amount of income required after allowing for expenditure and all other income. This amount is then divided by the total property valuations as advised by Landgate to determine the rate in the dollar. On this basis the rate in the dollar moves up and down as valuations move up and down to ensure a consistent revenue stream each year. Accordingly significant adjustments are required to the rate in the dollar for most categories to reflect the movements in valuations.

The historical movement in the residential rate in the dollar based on valuation changes is reflected in the graph below. The graph clearly illustrates that the Council established Rate in the dollar dropped significantly in 2009/10 when the GRV valuations for residential properties (as determined by Landgate) rose significantly. Conversely, Landgate has indicated substantial decreases in valuations in the most recent valuation cycle and consequently the Council’s rate in the dollar is proposed to increase to generate a similar level of revenue.



The proposed rates in the dollar attempt to balance the need for revenue to fund essential services and infrastructure with the desire to minimise the impact that rates have on ratepayers. The rates in the dollar generate sufficient funds to continue to provide services and facilities at the current level and allow investment in new services and infrastructure in line with the direction established in Council’s Long Term Financial Plan.

Table 2 details the proposed GRV and UV differential rates compared to those adopted for 2014/15:

**Table 2**

GRV/UV	Differential Rates Categories	2014/15 Rate in \$	2014/15 Minimum Rate	Proposed Rate in \$	Proposed Minimum Rate
GRV	Residential	0.028832	\$1,400	0.066070	\$1,500
GRV	Commercial / Tourism / Town Centre	0.057664	\$1,400	0.077202	\$1,500
GRV	Industry / Mixed Business	0.057664	\$1,400	0.057421	\$1,500
GRV	Airport / Strategic Industry	0.100911	\$1,400	0.132140	\$1,500
GRV	Transient Workforce Accommodation / Workforce Accommodation	0.115328	\$1,400	0.257180	\$1,500
UV	Pastoral	0.065918	\$1,400	0.155806	\$1,500
UV	Mining/Other	0.131836	\$312	0.146707	\$1,500
UV	Strategic Industry	0.164795	\$1,400	0.171387	\$1,500

While the majority of the Rates in the dollar are higher, the rates are expected to result in a **reduction** in the rates payable for the vast majority of residential properties. Having said that, areas where property valuations have not reduced to the same degree as those elsewhere in the district (primarily Wickham and Roebourne) will experience an increase in total rates payable. Despite the increases, average rates for Wickham and Roebourne properties will remain lower than average rates for Karratha, Dampier and Point Samson.

Rates payable in non-residential categories are proposed to increase by approximately 4% on average.

As with residential properties, the valuation changes have not been universal in the commercial, industrial, transient workforce, pastoral, town centre, airport, mining or strategic industry areas with valuations in some areas decreasing significantly and other areas retaining relatively consistent valuations with those that were previously applied. This translates into a similar situation to that applies in the residential area where rate increases/decreases are not uniform or consistent. The Council established rate in the dollar must be applied consistently across all properties in the rate category and the valuations have not changed in a consistent manner leading to variable outcomes in relation to rates payable by individual properties.

Given the nature of the rating system, where properties of similar value are liable for similar rates, it is not possible to avoid the impact of the 'normalisation' of property values across the district without significantly impacting large numbers of properties in other categories.

When the remaining valuation data is provided by Landgate it will be necessary to review the rate in the dollar for those properties affected (i.e. TWA and Strategic Industry and all UV rated properties). Although this may significantly impact individual properties, it is not expected to have a material impact on the amount of rates payable for the majority of those properties.

## LEVEL OF SIGNIFICANCE

In accordance with Council Policy *CE-8 Significant Decision Making Policy*, this matter is considered to be of high significance in terms of Council's ability to provide operational services and key infrastructure identified in the Council's Strategic and Operational Plans.

## COUNCILLOR/OFFICER CONSULTATION

Consultation has taken place with Councillors and Executive Management Team via budget workshops and strategic planning sessions.

## COMMUNITY CONSULTATION

In addition to statutory public notice in accordance with Section 6.36 of the *Local Government Act 1995* it is proposed to write to owners of properties in Wickham and Roebourne regarding the impact on annual rates arising from valuation changes applied to Differential Rates for 2015/16. Public submissions must then be considered by Council prior to consideration of the 2015/16 Budget.

The updated Objectives and Reasons for Proposed Differential Rates (attached) must also be made available as part of the community consultation.

## STATUTORY IMPLICATIONS

*Local Government Act 1995:*

Section 6.33 - Differential Rates

Section 6.35 - Minimum Payment

Section 6.36 - Local Government to give notice of certain rates

## POLICY IMPLICATIONS

Council Policy CF-10 Rating Equity Policy.

## FINANCIAL IMPLICATIONS

Council's adopted Long Term Financial Plan includes a 7% rate increase annually coupled with a 3.3% growth in property numbers. Sound financial management and higher than forecast property growth over recent years means that Council can adopt a **lower rate increase** than previously forecast to reflect the changed economic conditions being experienced across the district.

Based on current rating information, the proposed differential rates model would raise \$42.2 million in rates in the 2015/16 financial year comparative to \$40.6 million of rates levied in 2014/15.

As part of the budget process, Councillors have reviewed the projected changes in Operating Income and Expenditure, along with proposed capital works, projects and new initiatives. The differential rates model as endorsed by Council for advertising will directly influence Council's ability to fund expenditure requirements proposed to be included in the 2015/16 Budget.

## STRATEGIC IMPLICATIONS

This item is relevant to Council's approved Strategic Community Plan 2012-2022 and Corporate Business Plan 2012-2016. In particular the Operational Plan 2014-2015 provided for this activity:

Our Program:	4.d.1.1	Maximise opportunities for long term financial sustainability and equitable rating structure.
Our Services:	4.d.1.1.1	Responsible financial management.

## **RISK MANAGEMENT CONSIDERATIONS**

The greatest risk to Council is being able to fund the outcomes contained within Council's Strategic Plan.

## **IMPACT ON CAPACITY**

There is no impact on capacity or resourcing to carry out the Officer's recommendation.

## **RELEVANT PRECEDENTS**

Annually the City applies for Ministerial Approval in order to impose differential rating for all Gross Rental Value properties and Unimproved Value properties.

## **VOTING REQUIREMENTS**

Simple Majority

## **OPTIONS:**

### Option 1

As per Officer's recommendation.

### Option 2

That Council by SIMPLE Majority pursuant to Section 6.36 of the *Local Government Act 1995* RESOLVES for the purpose of public advertisement and consultation of its intended Differential Rates Model for the 2015/16 Financial Year to ENDORSE the following differential rates:

GRV/UV	Differential Rates Categories 2015/16	Proposed Rate in \$	Minimum Rate
GRV	Residential		
GRV	Commercial / Tourism / Town Centre		
GRV	Industry / Mixed Business		
GRV	Airport / Strategic Industry		
GRV	Transient Workforce Accommodation / Workforce Accommodation		
UV	Pastoral		
UV	Mining/Other		
UV	Strategic Industry		

## **CONCLUSION**

The differential rates model proposed for public advertising meets the anticipated revenue requirements of the 2015/16 Budget while responding to the changed economic conditions being experienced across the district. With significant changes in property valuations arising from the general revaluation, the proposed differential rates would result in a reduction in the rates payable for most residential properties, with non-residential rates proposed to increase by approximately 4% on average.

It is proposed to write to owners of properties in Wickham and Roebourne where significant increases are expected as a result of the 'normalisation' of valuations across the district.

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**OFFICER'S RECOMMENDATION**

That Council by SIMPLE Majority pursuant to Section 6.36 of the *Local Government Act 1995* RESOLVES to:

1. ENDORSE the advertising of the Council's intention to levy the following differential rates in 2015/16:

GRV/UV	Differential Rates Categories 2015/16	Proposed Rate in \$	Minimum Rate
GRV	Residential	0.066070	\$1,500
GRV	Commercial / Tourism / Town Centre	0.077202	\$1,500
GRV	Industry / Mixed Business	0.057421	\$1,500
GRV	Airport / Strategic Industry	0.132140	\$1,500
GRV	Transient Workforce Accommodation / Workforce Accommodation	0.257180	\$1,500
UV	Pastoral	0.155806	\$1,500
UV	Mining/Other	0.146707	\$1,500
UV	Strategic Industry	0.171387	\$1,500

2. WRITE to owners of properties in Wickham and Roebourne regarding the impact on annual rates arising from valuation changes applied to Differential Rates for 2015/16.
3. ENDORSE the *Objectives and Reasons* for Proposed Differential Rates.



## OBJECTIVES AND REASONS FOR PROPOSED DIFFERENTIAL RATES FOR THE YEAR ENDING 30 JUNE 2016

In accordance with Section 6.36 of the *Local Government Act 1995*, the City of Karratha is required to publish its Objects and Reasons for implementing Differential Rates.

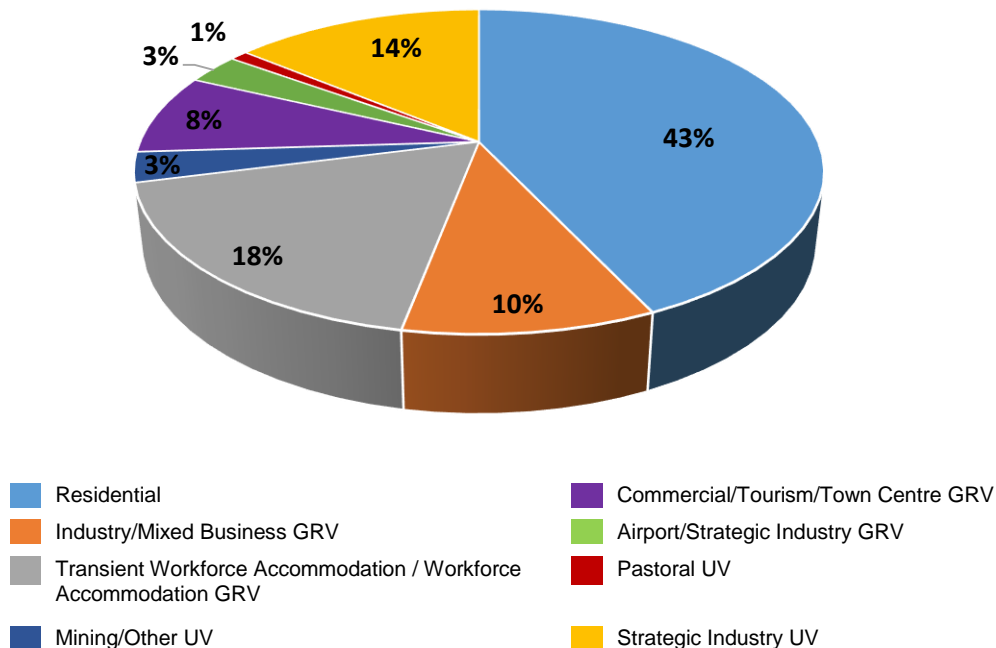
### OVERALL OBJECTIVE

The purpose of the levying of rates is to meet Council's budget requirements in each financial year in order to deliver services and community infrastructure.

Property valuations provided by the Valuer-General are used as the basis for the calculation of rates each year. Section 6.33 of the *Local Government Act 1995* provides the ability to differentially rate properties based on zoning and/or land use as determined by the City of Karratha. The application of differential rating maintains equity in the rating of properties across the City.

Table 1 represents the total 2015/16 rates to be levied by land use / zoning.

**Table 1: Indicative Percentage Rates Contribution by Land Use / Zoning**



The 2015/16 Rating Year sees the latest general revaluation effective 1 July 2015, with valuations assessed as at August 2014 by the Valuer-General's office.

The overall trend has seen sizeable but disparate reductions in residential, commercial and pastoral lease properties. Correspondingly the Rate in the Dollar applied to the valuations to determine property rates has been increased to reflect Council's objective of raising a total of \$42.2 million in rates.

## GROSS RENTAL VALUE PROPERTIES (GRV)

The *Local Government Act 1995* determines that properties of a Non-Rural purpose be rated using the Gross Rental Valuation (GRV) as the basis for the calculation of annual rates.

The Valuer-General determines the GRV for all properties within the City of Karratha every three years and assigns a GRV. The last general revaluation was effective from 1 July 2012.

Interim valuations are provided monthly to Council by the Valuer-General for properties where changes have occurred (i.e. subdivisions or strata title of property, amalgamations, building constructions, demolition, additions and/or property rezoning). In such instances Council recalculates the rates for the affected properties and issues interim rates notices.

The rate in the dollar set for the residential category forms the basis for calculating all other GRV differential rates. Table 2 below summarises the 2015/16 minimum payments and rates in the dollar for GRV:

**Table 2: Proposed differential rates for 2015/16 financial year (GRV)**

Differential Rates 2015/16		
Category	Minimum Payment	Proposed Rate in \$
<b>Gross Rental Value</b>		
Residential	\$1,500	0.066070
Commercial / Tourism / Town Centre	\$1,500	0.077202
Industry / Mixed Business	\$1,500	0.057421
Airport / GRV (Strategic Industry)	\$1,500	0.132140
Transient Workforce Accommodation / Workforce Accommodation	\$1,500	0.253352

**Residential** – means any land:

- that is predominantly used for residential purposes;
- **or**
- which is vacant of any construction, and is zoned as residential under the City's Planning Scheme; and

**Commercial / Tourism / Town Centre** – means any land:

- that is predominately used for either:
  - commercial purposes;
  - tourism purposes;
  - a combination of commercial and tourism purposes;
- **or**
- that does not have the characteristics of any other GRV differential rate category.

**Industry / Mixed Business**

- that is predominately used for either:
  - industrial purposes;
  - a combination of industrial and commercial purposes.

**Airport / Strategic Industry** – means any land:

- which is located within Karratha Airport (Reserve #30948);
- **or**
- that is predominately used for the purpose of resource processing.

The rate in the dollar for Airport / Strategic Industry is proposed to be two times (x2) the Residential rate category which equates to two point three (x2.3) the lowest GRV rate in the dollar being Industry / Mixed Business.



**Transient Workforce Accommodation / Workforce Accommodation** – means any land:

- that is predominately used for the purpose of workforce accommodation;  
**or**
- that is predominately used for the purpose of transient workforce accommodation;  
**or**
- that has been zoned as Transient Workforce.

The rate in the dollar for the Transient Workforce Accommodation category is proposed to be three point eight three times (x3.83) the Residential rate category which equates to four point four eight (x4.48) the lowest GRV rate in the dollar being Industry / Mixed Business.

Rating Objective: This differential rate maintains the relativity comparative to residential rates and provides an average rate per accommodation unit of less than Council’s proposed minimum payment.

### **UNIMPROVED VALUE PROPERTIES (UV)**

Properties that are predominantly of a rural purpose are assigned an Unimproved Value that is supplied and updated by the Valuer-General on an annual basis.

The rate in the dollar set for the ‘Pastoral’ category forms the basis for calculating all other UV differential rates. Table 3 below summarises the 2015/16 minimum payments and rates in the dollar for Unimproved Values:

**Table 3: Proposed differential rates for 2015/16 financial year (UV)**

<b>Differential Rates 2015/16</b>		
<b>Category</b>	<b>Minimum Payment</b>	<b>Proposed Rate in \$</b>
<b>Unimproved Value</b>		
UV (Pastoral):	\$1,500	0.155806
UV (Mining/Other)	\$1,500	0.146707
UV (Strategic Industry)	\$1,500	0.171387

**Pastoral– means any land:**

- that currently has a pastoral lease granted;  
**and**
- that is used predominantly for the purpose of grazing (including agistment), dairying, pig-farming, poultry farming, fish farming, tree farming, bee-keeping, viticulture, horticulture, fruit growing or the growing of crops of any kind or for any combination of these activities;

**Mining/Other – means any land:**

- that a mining, exploration or prospecting lease and/or license has been granted;  
**or**
- that does not have the characteristics of any other UV differential rate category.

**Strategic Industry – means any land:**

- that is predominately used for industrial purposes;  
**or**
- that is predominately used for the purpose of resource processing;  
**or**
- that is predominately used for the purpose of supporting a transient workforce.