

## 7.5 DIFFERENTIAL RATING STRATEGY 2020/21

**Attachments:** Nil

**RECOMMENDATION:**

**That Council:**

1. **ADVERTISES** by local public notice for a period of 21 days, in accordance with Section 6.36(1) of the *Local Government Act 1995*, its intention to levy the following differential rates and minimum rates in 2020/2021 as set out in the Statement of Objects and Reasons for Differential Rates 2020/2021;
2. **AUTHORISES** the Chief Executive Officer to invite submissions from electors and ratepayers on the below proposed differential rates and minimum payments for 2020/2021:

Rating Category	2020/2021	
	Rate in the Dollar	Minimum Rate
Residential	0.07907540	\$1,211.90
Vacant-Residential	0.07250000	\$1,211.90
Vacant-Commercial	0.12817000	\$1,516.40
Other	0.06718000	\$1,197.70

3. **NOTES** any public submissions received in response to 1 and 2 above will be presented to Council for consideration;
4. **NOTES** that the City is finalising a range of financial hardship measures to assist ratepayers; and
5. **NOTES** that Administration will provide further advice to Council on potential funding of up to \$250,000, when finalising the 2020/2021 budget, to support the City in responding to ratepayers in financial crisis.

**PURPOSE OF REPORT:**

To obtain Council's approval to advertise the proposed differential and minimum rates for the 2020/2021 financial year and invite community feedback.

**BACKGROUND:**

The City imposes differential rates based on the purpose for which land is zoned or for which the land is held or used.

In accordance with section 6.36 of the *Local Government Act 1995*, the City is required to give local public notice of its intention to impose differential general rates prior to adopting its 2020/2021 budget.

**DETAILS:**

Rates setting for 2020/2021 has been incredibly challenging given the rapidly changing external environment, its impact on the local community and economy, and the resulting impact on the City's budget.

The City appreciates that many residents and local businesses have been adversely impacted by the economic downturn resulting from COVID-19 restrictions and this has been considered in the rates setting process.

Additional volatility and complexity has arisen as a result of the Valuer General's triennial revaluation of land.

In response, to the City's COVID-19 Relief and Recovery Implementation plan, made the following commitments to the 2020/2021 Annual Budget:

1. Rate yield is maintained at 2019/2020 level, and excludes any rates growth;
2. No fees and charges increases; and
3. Developing a hardship guideline for ratepayers.

### **Budget Setting for 2020/2021**

#### Forecast Reduction in Revenue

As a result of COVID-19 restrictions the City has forecast that City revenue will drop by approximately \$10 million in the 2020/2021 year, primarily due to the following decisions and assumptions:

- Beatty Park revenue at 50%;
- Parking revenue at 50%;
- No increase to fees and charges;
- Implementation of the Mandatory Code of Conduct for Commercial tenancies; and
- Ministerial Order to reduce interest rate charges.

#### Budget Approach in 2020/2021

In response to the COVID-19 crisis within the community, and the impact on our budget forecast, the City has taken the following approach in 2020/2021:

- Created a conservative and pessimistic outlook in forward estimates;
- Used special purpose cash reserves to support community grants;
- Reduced discretionary expenditure;
- Maintained permanent employment of staff; and
- Tightly monitor changing conditions through quarterly budget reviews.

#### Capital Project Prioritisation

Capital projects have been heavily scrutinised, and projects have been put on hold unless they meet the following criteria:

- The project can be resourced in-house, gainfully using the labour of our permanent workforce;
- Business case presents an attractive cost benefit, for example:
  - It is cheaper to complete the project now than later;
  - The project will create potential for current or future savings; and/or
  - The project is urgent and necessary in the current COVID-19 environment.
- In all cases, the City's capacity to pay ultimately determines project feasibility.

Despite these challenges, and a reduction in capital spending of \$1.5M, the following capital projects are currently planned to continue (noting that the budget decisions are still subject to change):

- Solar PVC installation continues
- Greening program continues
- Parks & Open space is maintained
- City improves its asset sustainability ratio (reflecting appropriate maintenance of assets)
- Upgrade to Loftus Community Centre facility

### **Rates Revaluation – Effective 1 July 2020**

#### Gross Rental Values – Triennial Revaluation

Every 3 years the Valuer General's Office, via Landgate, conducts a revaluation of all property values in the metropolitan area.

The revaluation is based on property valuations and sales data as of 1 August 2018 and is effective from 1 July 2020. Rating valuations are therefore assessed at a 'snapshot in time' reflecting the property market for the metropolitan area on precisely the same date, ensuring consistency and fairness in the allocation of rates.

Properties are valued on their potential rental income rather than the capital value, known as Gross Rental Value, or GRV.

Unfortunately, the GRV revaluation adds volatility to the City's rates setting process. The GRV may vary for either the individual property (eg where property improvements or development has occurred), or may vary for a category of properties depending on sales data and valuations for the area.

The City then uses the revised GRV in the rates levy calculation, which consequently becomes more volatile.

The Local Government sector, including the City of Vincent, unsuccessfully appealed to the Local Government Minister to defer the GRV revaluation process this year so as to minimise this variability.

#### Rate Setting Arising from the Triennial Revaluation

The Valuer General's Office has recently provided the revaluation data, with the following table demonstrating the total variance of the GRV for each rateable category:

*Table 1: Impact Analysis of total GRV values for the City of Vincent, 2019/2020 to 2020/2021*

<b>Classification</b>	<b>2019/2020</b>	<b>2020/2021</b>	<b>% change +/-</b>
Residential	377,924,434	318,418,331	-15.75%
Vacant Residential	6,032,640	6,277,520	4.06%
Commercial - Other	109,778,300	105,906,771	-3.53%
Industrial - Other	19,087,083	18,260,436	-4.33%
Vacant Commercial	2,368,520	2,242,570	-5.32%
<b>Total</b>	<b>515,190,977</b>	<b>451,105,628</b>	<b>-12.44%</b>

Whilst individual properties may have fluctuated in value, at an overall category level, it can be seen that:

- Residential developed properties have on average lost 15.75% in value;
- Vacant residential land value has increased by 4.06%, although it should be noted the valuation methodology is different to developed land, with the GRV being a calculation of the capital value multiplied by 3%; and
- Non-residential properties (Other - Commercial and industrial) have on average lost between 3.53% and 5.32% in value.

#### Comparative view of Residential Rates – 2019/2020

In developing an equitable rating model, it is useful to undertake a comparison with other metropolitan local governments.

The following table details how the rate in the dollar and waste collection charges (where they are applied separately) levied in 2019/20 impact on the rate levied on an individual residential property at each of the local governments, based on a nominated Gross Rental Value (GRV) of \$22,245, being the City of Vincent Residential category mean average.

In a residential rating context, this table demonstrates that in 2019/2020, when the waste collection charge is factored in the City had:

1. the fifth lowest minimum rate in the metropolitan area; and
2. the fourth lowest combined rates/waste charge of the 29 local governments listed for a residential property with a GRV of \$22,245.

In the 2019/2020 year, the rates model (Table 2) generated a total rates yield of \$35,655,785, excluding interim rates of \$220,000 for new or improved properties. In setting rates for 2020/2021 Council has directed administration to ensure the total rates yield is maintained at 2019/20 level, and excludes any rates growth.

*Table 2: Comparative View of Residential Rates in Metro LGAs for 2019/2020*

Council	Rate in \$	Minimum Rates	Waste Charge	Security	Total		Ranking Based on:	
					Total Minimum Payable	Residential Rates Levy based on a GRV of \$22,245	Minimum	\$22,245
Perth	5.903930	726.00	\$ 318.00	\$ -	\$ 1,044.00	\$ 1,631.33	1	11
East Fremantle	7.035900	1,112.00	\$ -	\$ -	\$ 1,112.00	\$ 1,565.14	2	8
Cottesloe	6.398400	1,161.00	\$ -	\$ -	\$ 1,161.00	\$ 1,423.32	4	1
Belmont	5.334100	840.00	\$ 318.81	\$ -	\$ 1,158.81	\$ 1,505.38	3	7
Vincent	6.650000	1,211.90	\$ -	\$ -	\$ 1,211.90	\$ 1,479.29	5	4
Mosman Park	6.801100	907.00	\$ 322.50	\$ -	\$ 1,229.50	\$ 1,835.40	6	19
Stirling	5.011700	853.00	\$ 350.00	\$ 30.00	\$ 1,233.00	\$ 1,494.85	7	5
Bayswater	6.393000	906.00	\$ 358.30	\$ -	\$ 1,264.30	\$ 1,780.42	10	14
Victoria Park	8.400000	1,233.00	\$ -	\$ -	\$ 1,233.00	\$ 1,868.58	8	20
Joondalup	5.588600	909.00	\$ 346.00	\$ -	\$ 1,255.00	\$ 1,589.18	9	9
Canning	4.664600	852.00	\$ 381.50	\$ 56.30	\$ 1,289.80	\$ 1,475.44	11	3
South Perth	6.727800	994.00	\$ 325.00	\$ -	\$ 1,319.00	\$ 1,821.60	15	18
Swan	7.508800	880.00	\$ 418.00	\$ -	\$ 1,298.00	\$ 2,088.33	12	26
Claremont	6.414400	1,314.00	\$ -	\$ -	\$ 1,314.00	\$ 1,426.88	14	2
Gosnells	6.512000	980.00	\$ 347.00	\$ -	\$ 1,327.00	\$ 1,795.59	16	16
Fremantle	7.311000	1,340.00	\$ -	\$ -	\$ 1,340.00	\$ 1,626.33	17	10
Kwinana	8.279000	1,072.00	\$ 286.00	\$ -	\$ 1,358.00	\$ 2,127.66	19	27
Melville	6.507805	1,283.43	\$ -	\$ 57.00	\$ 1,340.43	\$ 1,504.66	18	6
Mundaring	8.401000	864.00	\$ 442.00	\$ -	\$ 1,306.00	\$ 2,310.80	13	29
Wanneroo	6.613200	988.00	\$ 410.00	\$ -	\$ 1,398.00	\$ 1,881.11	20	21
Peppermint Grove	7.846600	1,400.00	\$ -	\$ -	\$ 1,400.00	\$ 1,745.48	21	12
Cockburn	7.600000	1,353.00	\$ -	\$ 72.57	\$ 1,425.57	\$ 1,763.19	22	13
Kalamunda	6.037400	882.00	\$ 550.00	\$ -	\$ 1,432.00	\$ 1,893.02	23	22
Cambridge	5.841440	953.00	\$ 500.00	\$ -	\$ 1,453.00	\$ 1,799.43	24	17
Bassendean	7.302000	1,106.00	\$ 380.00	\$ -	\$ 1,486.00	\$ 2,004.33	25	25
Armadale	8.617000	1,179.00	\$ 377.50	\$ -	\$ 1,556.50	\$ 2,294.35	26	28
Rockingham	7.262000	1,200.00	\$ 375.00	\$ -	\$ 1,575.00	\$ 1,990.43	27	23
Subiaco	6.702000	1,190.00	\$ 505.00	\$ -	\$ 1,695.00	\$ 1,995.86	28	24
Nedlands	5.733300	1,484.00	\$ 298.00	\$ -	\$ 1,782.00	\$ 1,782.00	29	15

### Differential Rates and Minimum Rates in 2020/2021

#### Rate Modelling Assumptions

In preparing the Differential Rates and Minimum Rates for 2020/2021, the City has used the following assumptions:

1. Total rates yield is maintained at 2019/20 level, and excludes any rates growth;
2. Minimum rates remain at 2019/2020 levels;
3. Reflecting the impact of COVID-19 on local small businesses, rates modelling should soften the impact on Commercial and Industrial categories; and
4. Reflecting the impact of COVID-19 on individuals and families, financial hardship provisions are to be strengthened, including hardship funding and support, for ratepayers in distress.

#### Minimum Rate

Minimum rates are imposed to establish the minimum amount any property must pay to contribute to the cost of services provided by a local government, regardless of the value (GRV) of their property.

The minimum rate for each category has not increased from 2019/2020.

#### Rates Growth

Rates revenue generated from property development and improvement in the previous 12 months will be redirected into subsidising ratepayers for 2020/2021.

The City has been experiencing a moderate level of growth in the number of rateable properties over recent years, averaging nearly 1.83% annually since 2014.

The following table demonstrates that growth in the number of rateable properties in 2019/20 is lower than the recent average, at 0.88%.

*Table 3: Growth in the rates base*

Year (30 June)	RATEABLE PROPERTIES	Increase	
		Number	%
2020	18999	165	0.88%
2019	18834	103	0.55%
2018	18731	514	2.82%
2017	18217	350	1.96%
2016	17867	313	1.78%
2015	17554	260	1.50%
2014	17294	560	3.35%
2013	16734	136	0.82%
2012	16598	26	0.16%
2011	16572	246	1.51%

#### Impact of COVID-19 on Local Small Businesses

The rates modelling assumptions for 2020/2021 considers the impact of COVID-19 on local small businesses.

Grattan Institute's analysis (Figure 1) demonstrates that food services, arts and recreation services are the most heavily impacted within the broader Australian economy.

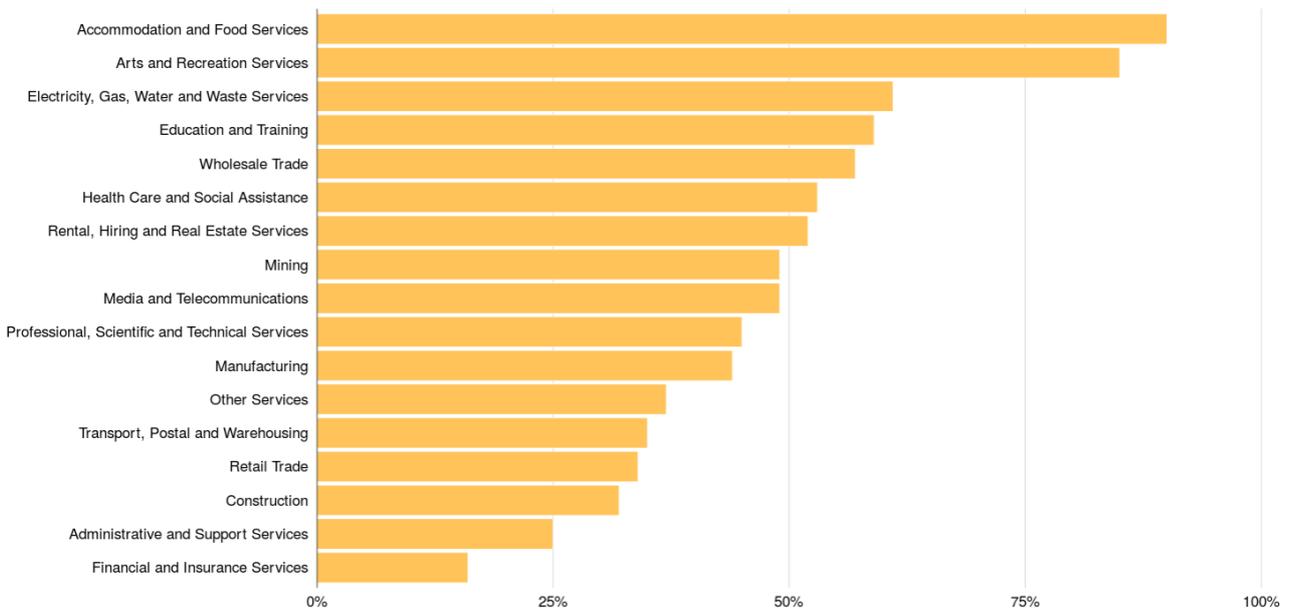
This reflects the City of Vincent's experience in our Town Centres.

*Figure 1: Grattan Institute: Impact analysis of COVID-19 trading restrictions by industry category as at 28 May 2020 (Source: <https://grattan.shinyapps.io/covid-econ-tracker/>)*

**Businesses in accommodation, food, arts and recreation industries have been particularly affected**

Proportion of businesses impacted to a 'moderate' or 'great' extent because of

Restrictions on Trading



Note: The survey was conducted by the ABS between 13 May and 22 May 2020.  
 Source: ABS Business Indicators.  
 Timing: Data released monthly. Next release expected in late June 2020. Chart last updated 28 May 2020.

**Impact of COVID-19 on the Employment of Local Residents**

The rates modelling assumptions for 2020/2021 also considers the impact of COVID-19 on the employment of City of Vincent residents.

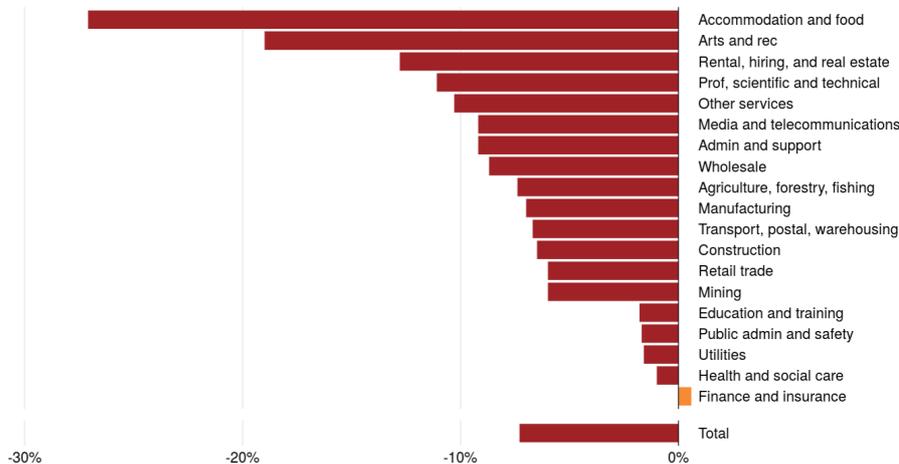
The Grattan Institute’s analysis (Figure 2) demonstrates that where COVID-19 restrictions have had an adverse impact on jobs within the Australian economy. While Treasury and Reserve Bank of Australia announcements in May 2020 are forecasting national unemployment levels to be in excess of 10%, this impact has been partially offset by the JobKeeper initiative.

The National Institute of Economic and Industry Research (Figure 3) shows the sectors where City of Vincent residents work. 11% of City of Vincent residents work in the Accommodation and Food services sectors.

Figure 2: Grattan Institute: Analysis of COVID-19 unemployment by industry category as at 28 May 2020 (Source: <https://grattan.shinyapps.io/covid-econ-tracker/>)

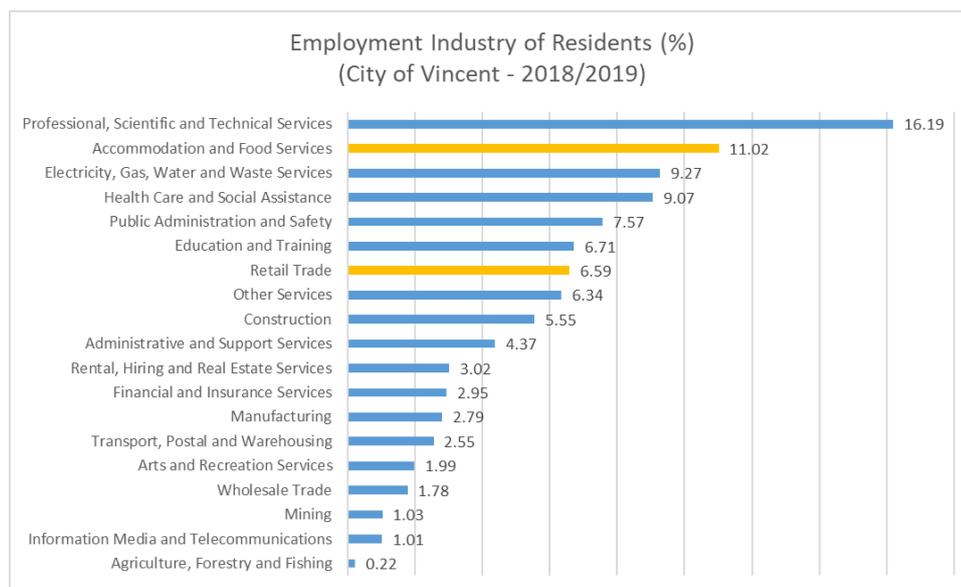
**Employees in accommodation and food service industries have been hit particularly hard**

Proportion of jobs lost/gained since 14 March 2020 by industry



Note: Data collected by the ABS for the week ending 2 May 2020 was released on 19 May 2020.  
 Source: ABS.  
 Timing: Data released fortnightly. Chart last updated 19 May 2020.

Figure 3: Employment Industry of Residents for City of Vincent (2018/2019), by percentage Source: National Institute of Economic and Industry Research (NIEIR) 2019



**Financial Hardship Measures**

Acknowledging the potential for financial hardship arising from the COVID-19 crisis, the City has revised and strengthened its financial hardship measures.

These measures include:

- **Bill Smoothing** – all City of Vincent ratepayers can choose to pay their rates in fortnightly or monthly instalments, via direct debit, for the first time;
- **Flexible Payment Arrangements** – payment arrangements are facilitated in accordance with section 6.49 of the *Local Government Act* and may include extending payment deadlines, and repayments plans customised to the circumstances of the ratepayer;
- **Deferment up to 6 months** – ratepayers may request to defer the payment of rates for up to 6 months;
- **Waiver of penalty interest and charges on payment arrangements** – ratepayers entering into a payment arrangement will have interest and fees waived; and
- **Suspension of debt recovery** – debt recovery will cease once a payment arrangement is in place.

Additionally, the City will assist ratepayers in financial crisis to access additional Federal, State and Local Government grants and support services, including grants and support services provided or facilitated by the City of Vincent.

The City will review and consider allocating potential funding of up to \$250,000, when finalising the 2020/2021 budget, to provide additional assistance to the City’s overall efforts to respond to ratepayers assessed as being in financial crisis.

**2020/2021 PROPOSED DIFFERENTIAL RATES**

The City proposes the following differential rates be advertised for public comment:

Rating Category	2020/21	
	Rate in the Dollar	Minimum Rate
Residential	0.07907540	\$1,211.90
Vacant-Residential	0.07250000	\$1,211.90
Vacant-Commercial	0.12817000	\$1,516.40
Other	0.06718000	\$1,197.70

**Local Notice**

Local governments are required to give notice of an intention to levy differential rates by publishing a notice in a newspaper circulating in the district. The notice is to include an invitation for submissions to be made by electors or ratepayers in respect to the proposed rates or minimums.

Council is to consider those submissions before imposing the proposed differential rates and minimums. It should be noted however, that Council can modify the rates after considering those submissions.

### **STATEMENT OF OBJECTS AND REASONS FOR DIFFERENTIAL RATES 2020/2021**

The overall objective of the proposed rates in the 2020/21 Budget is to provide for the net funding requirements of the City of Vincent's various programs, services and facilities.

The Objects and Reasons that have been proposed are:

#### **Residential**

The rate in the dollar and minimum rate have been set on the basis that ratepayers make a reasonable contribution to the cost of local government services and facilities.

#### **Vacant - Residential**

The rate in the dollar and minimum rate has been set in an effort to promote development of these properties thereby stimulating growth and development in the community.

#### **Vacant – Commercial**

The rate in the dollar and minimum rate for all Commercial/Industrial Vacant land has been set in an effort to promote the development of these properties by attracting business and industry to the City thereby stimulating growth and development in the community.

#### **Other – Commercial and Industrial**

The rate in the dollar and minimum rate for all Commercial/Industrial Improved property has been set to provide an acceptable standard of infrastructure and parking needs due to the greater volumes of people and vehicular traffic. Examples of properties that fall within this category are retail shops, wholesalers, warehouses, offices, service stations, hotels, taverns, and properties generally used for business purposes.

### **CONSULTATION/ADVERTISING:**

In accordance with section 6.36 of the *Local Government Act 1995* (the Act), public comments will be invited through publication of a local public notice, with the consultation period being open for a minimum of 21 days. All submissions received will be submitted to Council for consideration.

### **LEGAL/POLICY:**

#### **'6.33. Differential general rates**

- (1) *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, whether or not under a local planning scheme or improvement scheme in force under the Planning and Development Act 2005; or*
  - (b) *a purpose for which the land is held or used as determined by the local government; or*
  - (c) *whether or not the land is vacant land; or*
  - (d) *any other characteristic or combination of characteristics prescribed.*

#### **6.35. Minimum payment**

- (1) *Subject to this section, a local government may impose on any rateable land in its district a minimum payment which is greater than the general rate which would otherwise be payable on that land.*
- (2) *A minimum payment is to be a general minimum but, subject to subsection (3), a lesser minimum may be imposed in respect of any portion of the district.*
- (3) *In applying subsection (2) the local government is to ensure the general minimum is imposed on not less than –*
  - (a) *50% of the total number of separately rated properties in the district; or*
  - (b) *50% of the number of properties in each category referred to in subsection (6),*

*on which a minimum payment is imposed.*

**6.36. Local government to give notice of certain rates**

- (1) *Before imposing any differential general rates or a minimum payment applying to a differential rate category under section 6.35(6)(c) a local government is to give local public notice of its intention to do so.*
- (2) *A local government is required to ensure that a notice referred to in subsection (1) is published in sufficient time to allow compliance with the requirements specified in this section and section 6.2(1).*
- (3) *A notice referred to in subsection (1) –*
  - (a) *may be published within the period of 2 months preceding the commencement of the financial year to which the proposed rates are to apply on the basis of the local government's estimate of the budget deficiency; and*
  - (b) *is to contain –*
    - (i) *details of each rate or minimum payment the local government intends to impose; and*
    - (ii) *an invitation for submissions to be made by an elector or a ratepayer in respect of the proposed rate or minimum payment and any related matters within 21 days (or such longer period as is specified in the notice) of the notice; and*
    - (iii) *any further information in relation to the matters specified in subparagraphs (i) and (ii) which may be prescribed; and*
  - (c) *is to advise electors and ratepayers of the time and place where a document describing the objects of, and reasons for, each proposed rate and minimum payment may be inspected.*
- (4) *The local government is required to consider any submissions received before imposing the proposed rate or minimum payment with or without modification.*
- (5) *Where a local government –*
  - (a) *in an emergency, proposes to impose a supplementary general rate or specified area rate under section 6.32(3)(a); or*
  - (b) *proposes to modify the proposed rates or minimum payments after considering any submissions under subsection (4),*

*it is not required to give local public notice of that proposed supplementary general rate, specified area rate, modified rate or minimum payment.'*

**RISK MANAGEMENT IMPLICATIONS:**

**Low:** Reputational risk if the City does not advertise its intention to levy differential rates and minimums.

**STRATEGIC IMPLICATIONS:**

This is in keeping with the City's *Strategic Community Plan 2018-2028*:

*Innovative and Accountable*

*We are open and accountable to an engaged community.*

**SUSTAINABILITY IMPLICATIONS:**

Achieving an effective rating strategy is an important part of the City's overall financial management, which will progressively enable the City to meet all its operational obligations, including asset renewal to ensure the current standard of service can be maintained for future generations.

**FINANCIAL/BUDGET IMPLICATIONS:**

The advertising of the proposed differential and minimum rates is critical in the development of the annual budget. The level of rates generation is linked to the delivery of service and level of funding for capital works, debt servicing and consolidation of reserve funds.