



TOWN OF EAST FREMANTLE

DIFFERENTIAL GENERAL RATES AND MINIMUM PAYMENTS – OBJECTS & REASONS FOR THE 2021/22 RATING YEAR

In accordance with section 6.36 of the *Local Government Act 1995* and Council's 'Notice of Intention to Levy Differential General Rates and Minimum Payments', the following information details the objectives and reasons for those proposals.

EXECUTIVE SUMMARY

The following rating principles are proposed in this Statement of Rating Objects and Reasons for the 2021/22 rating year:

- Gross Rental Values apply to the following differential general rate categories; Residential and Commercial.
- Properties are rated according to Town Planning zonings, predominant land use, whether the land is vacant land, and any other characteristic or combination of characteristics prescribed, with each having a separate calculated rate in the dollar to achieve greater equity across all sectors.
- The Town of East Fremantle currently charges rates to six sporting clubs that are categorized as 'Sporting Clubs – Commercial' and rated under the Commercial GRV category. They are the East Fremantle Lawn Tennis Club, East Fremantle Bowling Club, East Fremantle Football Club, Fremantle Rowing Club, East Fremantle Yacht Club and Swan Yacht Club. These clubs generate income through food and beverage, as well as hire of facilities.
- The current Gross Rental Values have a date of valuation of 1 August 2018– that is, the Town received a general valuation with valuations to come into force on 1 July 2020. The Town is subject to a triennial revaluation, with the next valuation date being 1 August 2021, with values coming into force on 1 July 2023.
- It is very important for ratepayers to recognize that changes in land values do not automatically drive changes to rates englob. Council amends the rate in the dollar to offset any significant movement in valuations to maintain the rate yield, and the relative rates burden placed on each category.
- The rate in the dollar for Residential GRVs has been amended from 7.4225 cents to 7.6377 cents, an increase of 2.9%.
- The rate in the dollar for Commercial GRVs has been amended from 11.403 cents to 11.3749 cents, an increase of 2.9%.

- The proposed rates model will yield \$8,259,583 in total revenue, which is a 2.9% increase in rates payable for all properties.

WHAT ARE RATES?

Rates are a tax levied on all rateable properties within the boundaries of the Town of East Fremantle in accordance with the *Local Government Act 1995*.

The overall objective of the proposed rates in the 2021/22 Budget is to provide for the net funding requirements of the Town's services, activities, financing costs and the current and future capital requirements of the Town, after taking into account all other forms of revenue.

The formulation of a rating system is about achieving a means by which Council can raise sufficient revenue to pay for the services it provides. Throughout Australia, the basis of using property valuations has been found to be the most appropriate means of achieving rating equity; however, the achievement of a wholly equitable rating system for all properties, in all areas, is a difficult task if it is based on the property valuations alone. For this reason there are refinement options made available, such as differential rating, the Town of East Fremantle has elected to use.

In Western Australia, land is valued by Landgate Valuation Services and those values are forwarded to each local government for rating purposes. Two types of values are calculated – Gross Rental Value (GRV) which generally applies for urban areas; and Unimproved Value (UV) which generally applies for rural land. GRV means the gross annual rental that the land might reasonably be expected to realise if let on a tenancy from year to year upon condition that the landlord was liable for all rates, taxes and other charges thereon and the insurance and outgoings necessary to maintain the value of the land.

LOCAL GOVERNMENT ACT 1995 – RATING PROVISIONS

The *Local Government Act 1995* sets out the basis on which differential general rates may be based as follows:

Section 6.32 (1) of the *Local Government Act 1995* states:

- (1) When adopting the annual budget, a local government –
 - a. In order to make up the budget deficiency, is to impose* a general rate on rateable land within its district, which rate may be imposed either –
 - i. Uniformly; or
 - ii. Differentially

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.
- (2) Regulations may –
 - (a) specify the characteristics under subsection (1) which a local government is to use; or
 - (b) limit the characteristics under subsection (1) which a local government is permitted to use.

- (3) In imposing a differential general rate a local government is not to, without the approval of the Minister, impose a differential general rate which is more than twice the lowest differential general rate imposed by it.
- (4) If during a financial year, the characteristics of any land which form the basis for the imposition of a differential general rate have changed, the local government is not to, on account of that change, amend the assessment of rates payable on that land in respect of that financial year but this subsection does not apply in any case where section 6.40(1)(a) applies.
- (5) A differential general rate that a local government purported to impose under this Act before the *Local Government Amendment Act 2009* section 39(1)(a) came into operation is to be taken to have been as valid as if the amendment made by that paragraph had been made before the purported imposition of that rate.

MINIMUM PAYMENTS

- (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.
- (4) A minimum payment is not to be imposed on more than the prescribed percentage of —
 - (a) the number of separately rated properties in the district; or
 - (b) the number of properties in each category referred to in subsection (6), unless the general minimum does not exceed the prescribed amount.
- (5) If a local government imposes a differential general rate on any land on the basis that the land is vacant land it may, with the approval of the Minister, impose a minimum payment in a manner that does not comply with subsections (2), (3) and (4) for that land.
- (6) For the purposes of this section a minimum payment is to be applied separately, in accordance with the principles set forth in subsections (2), (3) and (4) in respect of each of the following categories —
 - (a) to land rated on gross rental value; and
 - (b) to land rated on unimproved value; and
 - (c) to each differential rating category where a differential general rate is imposed.

2021/22 BUDGET PROPOSAL

The following are the proposed Differential General Rates and Minimum Payments for the Town of East Fremantle for the 2021/22 financial year, to be effective from 1 July 2021:

Rate Category	Proposed Rate in \$	Proposed Minimum Payment	Budget Rate Yield 20/21	Budget Rate Yield 21/22
Residential	7.6377 cents	\$1,138	\$6,743,911	\$6,946,039
Commercial	11.3749 cents	\$1,702	\$1,295,840	\$1,323,172
TOTAL			\$8,039,751	\$8,269,211

The following principles have been considered when setting the level of rates:

- Council's adopted Strategic Resource Plan (SRP) is underpinned by a **3%** annual increase in rate revenue against actual rate yield in the prior year.
- Increases in the general rate yield for the last 5 financial years were 4.15%, 2.0%, 2.5%, 2.4% and 0% (COVID). Thus, in the last four financial years, the increase in rate yield has been below the stable pricing pathway assumed in the SRP.
- In setting rates for the next financial year, Council needs to be cognisant of longer-term variables such as:
 - (i) The cumulative difference in total revenue over 15 years between a 2% annual rate increase and 3% annual rate increase is \$10.5m. This additional rate revenue provides greater capacity to fund capex requirements (or debt obligations) associated with the implementation of the East Fremantle Oval Redevelopment project, Preston Point Facilities Master Plan and Foreshore Master Plan, to name a few.
 - (ii) The East Fremantle Oval Business Plan indicates that the Town may be required to provide an operational subsidy and contribution to start-up capital, which will require an own source funding contribution.
 - (iii) As detailed in the SRP, the Current Ratio, Operating Surplus Ratio and Asset Sustainability Ratios are all projected to be below the Department's benchmark for several years. The adverse trends in ratios have featured as a significant audit finding in the last 2 years. The Town needs to grow its revenue base relative to expenditure to create available surplus for investing and financing activities.
 - (iv) Total Cash-Backed Reserves will be circa \$900k at the end of this financial year. To meet the objectives and future funding requirements as outlined in Council's Cash Backed Reserves Policy, a replenishment strategy of Reserves should be considered.
- The Local Government Cost Index (LGCI) is an accurate indicator of cost movements affecting Local Governments as it makes better distinction between operating and capital costs and uses price indices that align more closely to the nature of goods and services used by Local Governments. The LGCI predicts that costs will rise by 1.4% in 2021/22 and 2% in 2022/23, and reflects an expected increase in wage, construction and machinery and equipment costs, as the economic recovery gathers pace.

- The following cost drivers will amount to a 0.5% rate increase for the Town in 2021/22; street lighting tariffs will increase by 9.6% (an increase of \$11k) and insurance will increase by between 10-15% (an increase of \$30k).

Residential Improved and Not Improved

Characteristics:

This differential general rate category imposes a general rate on land valued on a gross rental value basis, which is zoned, held or used for residential purposes and having improvements erected on it.

Reasons and Objects:

The object of this proposed rate is to apply a base differential general rate to land zoned and used for residential purposes and to act as the Town's benchmark differential rate by which all other GRV rated properties are assessed. The reason for this rate is to ensure that all ratepayers make a reasonable or minimum contribution towards the ongoing maintenance and provision of works, services and facilities throughout the Town. The proposed rate in the dollar of GRV value for this category is 0.076377 with a minimum payment amount of \$1,138. 330 properties or 10% of residential properties will receive the minimum payment.

Commercial Improved and Not Improved

Characteristics:

This differential rate category imposes a rate on land valued on a gross rental value basis, which is zoned, held or used for commercial purposes and having improvements erected on it.

This category also includes 'Sporting Clubs – Commercial'. They are the East Fremantle Lawn Tennis Club, East Fremantle Bowling Club, Fremantle Rowing Club, East Fremantle Football Club, East Fremantle Yacht Club and Swan Yacht Club. These clubs generate commercial revenue through food and beverage, as well as hire of facilities. The Town has tenure agreements in place with each of these organisations which entitles the Town to levy rates and service charges.

Reasons and Objects:

The object of this differential rate category is to apply a rate to Commercial properties in order to raise additional revenue to offset the costs associated higher levels of services to properties in this category, such as parking infrastructure, road construction, maintenance (including building maintenance) and refurbishment including road drainage systems, urban style guides and parking compliance. The proposed rate in the dollar of GRV value for this category is 0.113749 with a minimum payment amount of \$1,702. 11 properties or 8% of commercial properties will receive the minimum payment.

The object of the differential rate category for Sporting Clubs – Commercial is to ensure that sporting clubs are contributing to the capital and maintenance expenses associated with the provision of dedicated infrastructure and facilities for the use of all community groups and sporting clubs. The Town has finalised the Preston Point Facilities Master Plan which identifies over \$11m worth of capital projects. The East Fremantle Tennis Club and East Fremantle Yacht Club are located within this precinct. The Town will also be budgeting circa \$15m of capital expenditure in 2021/22 to commence the East Fremantle Oval Redevelopment Project. This is a \$26m project over 2 years; and incorporates dedicated facilities for the East Fremantle Bowling Club and East Fremantle Football Club.

SUBMISSIONS:

Submissions are invited from any elector or ratepayer with respect to the proposed rates, and any related matter, within a minimum 21 days of the date of this notice. Submissions should be addressed to the Chief Executive Officer, Town of East Fremantle, PO Box 1097, FREMANTLE WA 6959, by 21 May 2021.

Submissions should be clearly marked 'Submission – 2021/2022 Differential Rates.

Gary Tuffin
Chief Executive Officer