City of Greater Geraldton Budget Principles 2012-13

Introduction

The 2012-13 Budget reflects the Council goal of maintaining levels of service, as well as new initiatives which Council will undertake over the next 12 months as we continue to provide capital works and service delivery for a growing community.

A feature of this Budget is inclusion of significant projects for which the City has received grant assistance from the Federal Government under the Building Better Regional Cities Program, and further grants from the State Government under its Royalties for Regions program, increasing the extent of Capital Works that will deliver significant stimulus and long lasting benefits for the community.

The proposed rate-in-dollar increase of 6.7% for Geraldton, alignment of minimum rates across categories of properties, including increased Minimum Rates provides a the statutory increase; or

Financial Sustainability

above financial sustainability threshold levels prescribed by the department, across future years.

The improvement of the City's current ratio and cash reserves, and investment in assets renewal, while remaining within a viable limit on use of debt funding and capacity to service debt, are key factors to improving financial sustainability of the City.

Current Ratio

The current ratio for the City as at the end of 2012-13 should be at or in excess of 100%.

Previous low ratios have been attributed to a number of historical factors inherited from the amalgamation of councils, including low rate increases, and the lasting impact of a significant reduction in rates at the time of the 2008 property revaluation; the transfer of Public Open Space revenues from General Fund to Trust Account; and the downward revaluation of Lehmann's investments (the original investment of $2.45m made in 2005 by the then City of Geraldton).

Cash Reserves

The level of cash reserves held influences the financial sustainability and the operational responsiveness of the City. It is important for the City to ensure that the respective levels of unrestricted cash and restricted cash are balanced to gain the maximum benefit overall. It is essential for the City to have an untied working capital capacity, in addition to tied cash reserves established for specific purposes. Having only restricted cash can reduce the City's ability to react to unexpected requirements for expenditure.

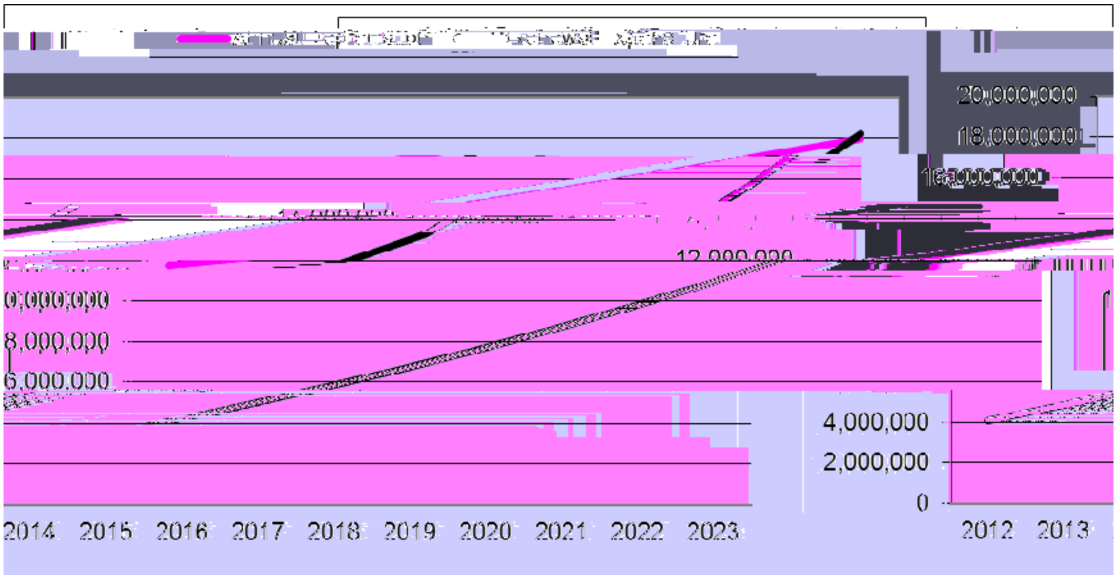
The transfer of cash to non-discretionary restricted reserves must be managed to ensure that these reserves remain cash-backed at all times. The transfer of cash to discretionary reserves should only occur from operating surpluses – and not from the untied working capital capacity of the City.

To this end, the Financial Sustainability Policy provides guidelines for the transferring of cash to reserves. Transfers to discretionary reserves should only be undertaken *after the annual financial statements have been completed and the actual financial result for the year has been determined.* Only transfers required by legislation, or reserves established to secure the operating surpluses of designated business units such as the Airport, for the agreed purposes of those business units, may be done before this time. This measure has been put in place to ensure that funds that are transferred to reserves are actually available from operating surpluses and do not place the working capital of the City at risk.

Reserve accounts are to be limited to a maximum of 20. The retention of minor reserves holding small amounts of money restricts the ability to pool funds to make most effective use of that funding.

The City recognises the importance of having an accumulated cash surplus in order to maintain high quality services to the community while at the same time position the City for the expected high growth. In order to achieve this balance the City strategy is to structure its budget to generate a cash surplus of 1.5% of its operating revenue.

be filled. By 2025-30, with the current rate of growth and expansion of the City, with new roads, drainage, parks, sporting facilities, projects like completion of the



Funding towards an asset renewal program is based on a condition analysis, confirmation of service levels, assessment of physical depreciation rate, prioritisation of work and reconciliation of available funding.

If Council does not allocate the necessary level of funding towards asset renewal, the assets will deteriorate to a stage where they are unserviceable. The current level of funding allocated for asset renewal does not cover the rate at which assets are being consumed. Accordingly, between 2012 and 2023, it can be anticipated that instances

Inflation

The data presented below details the impact of cost drivers on the 2012-2013 budget.

COST	Inflation Driver	Impact
Employee costs	WA Labour Cost Index +4.5%	$1.119M
Materials	CPI including carbon tax: +3.5%	$1.228M
Utilities	Electricity Costs: +12%	$0.315M
Plant & Equipment	CPI +3.5%	$0.115M
Works & Maintenance	WA Construction Costs: +4.5%	$1.335M
General	CPI +3.5%	$0.138M
	Increase above 2011-12:	**$4.250M**

Rates Increase for 2012-13

Determination of rates for 2012-13 has taken into account:

- the need for additional revenues of $4.25 million to cover forecast inflation and cost escalation impacts, to maintain current levels of service;
- the need to continue the process of increasing rates to bridge the asset renewal funding gap – with the objective of rating to cover full depreciation expenses by 2023;
- the need to raise revenue to cover brought-forward deficits;
- the need to raise revenue to fund capital works for new asset development;
- the need to raise revenue for provision of funds required as matching amounts to be eligible for Federal or State grants;
- the need to establish and maintain adequate working capital.

The recommended 2012-2013 budget has been based on an increase of 6.7% in rate-in-the-dollar for Geraldton residential and non-residential properties. The specified area parking rate has also been increased by 6.7%.

its current level, nor that Geraldton UV farming rates will be increased to the current Mullewa level.

Two areas are extremely important when the 2012-2013 rates increases were being determined:

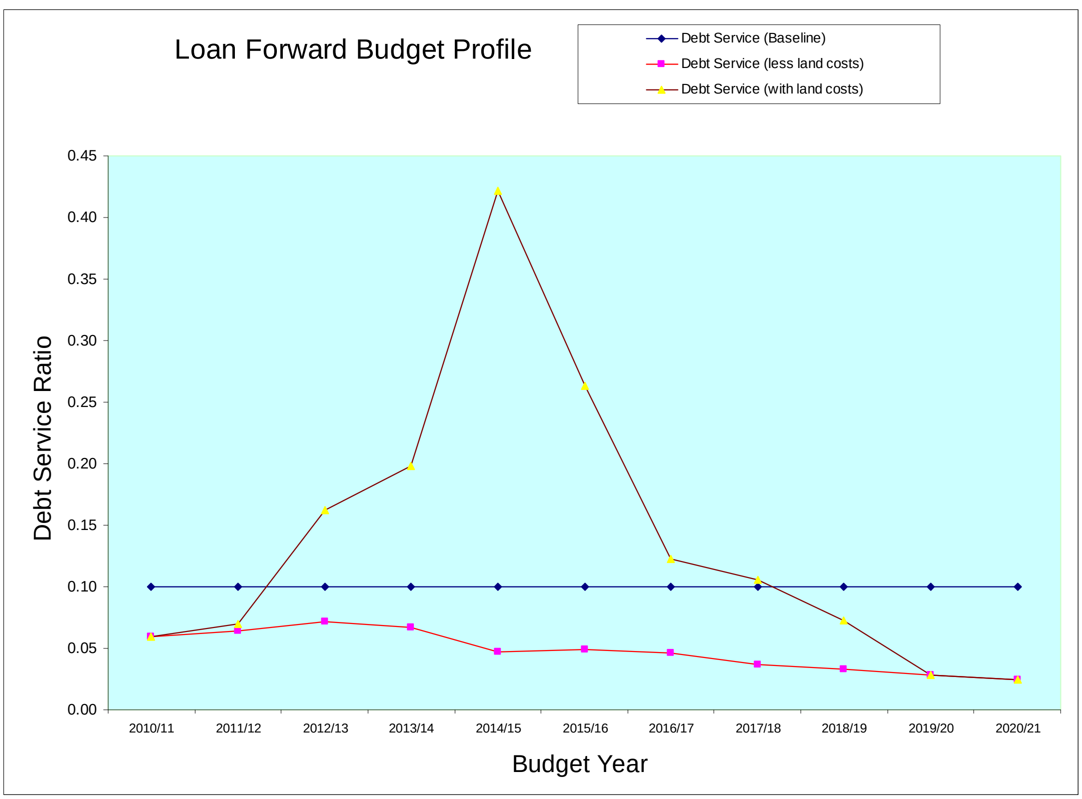
> Pre-existing low levels of rating, subsequent to the decision to reduce rates significantly at the time of the 2008 revaluation; and
> Inflation, and the rising costs of providing services and maintaining service levels.

The burden of additional in-region cost drivers including transport, and a lack of competition across service and materials providers, are key disadvantages compared to other localities. There is a high level of expectation in the community in relation to maintenance of current service levels, and provision of new facilities.

Debt Financing

Council's long term borrowing strategy focuses on reaching a debt position that provides future flexibility to use loan funds, without unduly exposing Council to a high debt burden. The level of new loan funding required in 2012-13 totals $30m of which $18m is required for land development projects.

The following chart shows that debt costs (excluding land costs) will peak in 2012-13 and then decline towards 2018-17. The level of debt excluding land costs remains below Council's 10% debt servicing threshold.



Rating

The overall objective of the proposed rates and charges in the 2012-13 Budget is to

The following rate differential system for the City of Greater Geraldton will be effective for the 2012-13 year.

RATE CATEGORY

The following rate categories have been established:

Geraldton GRV Residential Improved Land
Geraldton GRV Residential Vacant Land
Geraldton GRV Non Residential
Geraldton UV General Farming
Geraldton UV Mining
Geraldton UV Urban
Mullewa GRV Mullewa Townsite
Mullewa GRV Pindar Townsite
Mullewa UV Agriculture General
Mullewa UV Mining
Specified Area Rate – CBD Car Parking

1. PROPOSED RATES & MINIMUM CHARGES FOR 2012/13

Intended rates were advertised in accordance with the Local Government Act, for 21 days prior to 1 July 2012, with public submissions closing on 29th June 2012. The rates advertised were *estimates at that stage of the budget formulation process*, and were subject to change as part of Council deliberations after consideration of relevant matters and any submissions received. At that stage in the budget process, proposed rates in the dollar and minimum rates for the 2012-13 financial year for each rating category are shown below with 2011-12 comparisons:

AS PUBLICLY ADVERTISED DURING JUNE 2012 Intended Rating Category	Rate in the $ 2011-2012	Minimum Rate $	Rate in the $ 2012-2013	Minimum Rate $
Geraldton Residential	9.5809	830.00	10.2228	895
Geraldton Vacant Residential	16.5555	834.00	17.6647	900
Geraldton Non Residential	9.6502	830.00	10.2968	895
Geraldton UV General Farming	0.5389	830.00	0.5750	895
Geraldton UV Mining	0.5389	830.00	0.5750	895
Geraldton UV Urban	0.5389	830.00	0.5750	895
Un-occupiable City Centre Zone property	N/A	N/A	19.4243	N/A
Mullewa GRV Mullewa Townsite	10.7432	334.00	11.4630	360
Mullewa GRV Pindar Townsite	13.8362	90.00	14.7632	97

PROPOSED RATES 2012-13: Rating Category	Rate in the Dollar (Cents) 2011-2012	Minimum Rate $	Rate in the Dollar (Cents) 2012-2013	Minimum Rate $
Geraldton Residential	9.5809	830.00	10.2228	955
Geraldton Vacant Residential	16.5555	834.00	17.6647	955
Geraldton Non Residential	9.6502	830.00	10.2968	955
Geraldton UV General Farming	0.5389	830.00	0.6389	955
Geraldton UV Mining	0.5389	830.00	22.7136	345
Geraldton UV Urban	0.5389	830.00	0.6389	955
Un-occupiable City Centre Zone property	N/A	N/A	19.4234	955
Mullewa GRV Mullewa Townsite	10.7432	334.00	10.7432	384
Mullewa GRV Pindar Townsite	13.8362	90.00	13.8362	104
Mullewa UV Agriculture	0.8974	250.00	0.8974	288
Mullewa UV Mining	22.7136	300.00	22.7136	345
Specified Area Parking	0.4545	N/A	0.4850	N/A

Adoption of Rates Varied from Advertised Intended Rates

Council considerations leading to varying from the estimated rates as initially advertised for the mandatory 21 days during June 2012, and adopting the rates and minimums in the table above included:

Commitment to maintaining current levels of service;
Commitment to generation of funds for asset renewal and asset development;
Alignment of the UV mining rate for Geraldton areas with the rate applied in

GERALDTON RESIDENTIAL

Rating Category Geraldton Residential includes ratable land zoned Residential and land zoned other than Residential used for residential purposes. The proposed rate in the dollar is 0.102228 based on the Gross Rental Value of the land as provided to Council by Landgate Valuation Services. Rates provided by this category, including minimum rates at $955, are approximately 57% of the total rate requirements of Council.

The proposed rate in the dollar has been increased by 6.7% to reflect an increase in the rates required by the City to provide services.

GERALDTON VACANT RESIDENTIAL

Rating Category Geraldton Residential Vacant includes ratable land zoned Residential and remains undeveloped. The proposed rate in the dollar is 0.176647 based on the Gross Rental Value of the land as provided to Council by Landgate Valuation Services. Rates provided by this category, including minimum rates at $955, are approximately 10% of the total rate requirements of Council. The City continues to have vacant land rates higher than the improved residential rate in the dollar as an incentive to promote land development rather than land banking. This initiative is aimed at promoting development by making it cheaper to develop improvements on the land as against holding the land vacant.

GERADLTON NON-RESIDENTIAL

Rating Category Geraldton Non Residential includes any property zoned other than residential and will include any property zoned residential that is being utilised in a non-residential capacity as determined by council. The proposed rate in the dollar is 0.102968 based on the Gross Rental Value of the land as provided to Council by Landgate Valuation Services. Rates provided by this category, including minimum rates at $955, are approximately 22% of the total rate requirements of Council.

The rate in the dollar has been increased by 6.7% to reflect an increase in the rates required by the City to provide services. The increase is indicative of the continuing high funds being allocated to be spent on roads & drains, a key service consumed by the commercial and industrial ratepayers of the City.

GERALDTON UV GENERAL FARMING

Rating Category Geraldton General Farming includes rateable land zoned agricultural general in the former City of Geraldton-Greenough. The proposed rate in the dollar is 0.6389 based on the Unimproved Value of the land as provided to Council by Landgate Valuation Services. Rates provided by this category, including minimum rates at $955, are approximately 4% of the total rate requirements of Council.

The rate in the dollar has been increased by 0.001 from 0.005389 to 0.006389 to begin the process of alignment with Mullewa UV agriculture rates, for industry consistency, and reflects an increase in the rates required by the City to provide services.

GERALDTON UV MINING

Rating Category Geraldton Mining includes rateable land within the former City of

MULLEWA GRV MULLE WA TOWNSITE

Rating Category Mullewa GRV Mullewa Townsite includes rateable land within the Mullewa Townsite encompassing both residential and commercial properties valued under the gross rental value methodology. The proposed rate in the dollar is 0.107432 based on the Gross Rental Value of the land as provided to Council by Landgate Valuation Services. Rates provided by this category, including minimum rates at $384, are approximately 0.63% of the total rate requirements of Council.

The rate in the dollar was increased by 4% in 2011-12 to reflect rating parity with gross rental valued properties previously rated by the former Shire of Mullewa. The rate has not been increased for 2012-13, consistent with the Council Amalgamation agreement providing for alignment of Geraldton and Mullewa rates across a 5 year period.

MULLEWA GRV PINDAR TOWNSITE

Rating Category Mullewa GRV Pindar Townsite includes rateable land within the Pindar Townsite encompassing both residential and commercial properties valued under the gross rental value methodology. The proposed rate in the dollar is 0.138362 based on the Gross Rental Value of the land as provided to Council by Landgate Valuation Services. Rates provided by this category, including minimum rates at $104, are approximately 0.01% of the total rate requirements of Council.

The rate in the dollar was increased by 4% in 2011-12 to reflect rating parity with gross rental valued properties previously rated by the former Shire of Mullewa. The rate has not been increased for 2012-13, consistent with the Council Amalgamation agreement providing for alignment of Geraldton and Mullewa rates across a 5 year period.

MULLEWA UV AGRICULTURE

Rating Category Mullewa UV Agriculture includes rateable land zoned rural in the former Shire of Mullewa. The proposed rate in the dollar is 0.008974 based on the Unimproved Value of the land as provided to Council by Landgate Valuation Services. Rates provided by this category, including minimum rates at $288, are approximately 4.84% of the total rate requirements of Council.

The rate in the dollar was increased by 4% in 2011-12 to reflect rating parity with gross rental valued properties previously rated by the former Shire of Mullewa. The rate has not been increased for 2012-13, consistent with the Council Amalgamation agreement providing for alignment of Geraldton and Mullewa rates across a 5 year period.

MULLEWA UV MINING

Rating Category Mullewa UV Mining includes rateable land within the former Shire of Mullewa with a mining tenement lease. The proposed rate in the dollar is 0.227136 based on the Unimproved Value of the land as provided to Council by Landgate Valuation Services. Rates provided by this category, including minimum rates at $345, are approximately 0.34% of the total rate requirements of Council.

The rate in the dollar was increased by 4% in 2011-12 to reflect rating parity with gross rental valued properties previously rated by the former Shire of Mullewa. The rate has not been increased for 2012-13, consistent with the Council Amalgamation

Rate Increase for 2012/13

The 2012/2013 budget has been based on a proposed increase of 6.7% for the Geraldton residential and non-residential properties.

The specified area rate has been increased by 6.7%

The components of the rate increase include 3.5% for inflation including 0.7% for forecast effects of the Federal Carbon Tax, 2.5% for asset renewal and 0.7% for asset development and working capital which provides funds to match grant funds without creating an impost on Council's service delivery.

Full application of Council's financial sustainability policy would require a rate-in-the-dollar increase of 7.5% based on 3.5% inflation, 2.5% asset renewal and 1.5% asset development. However, having regard to 2011 as a revaluation year, and the increase in revenue generated by increase of the property value base, it is proposed to reduce the provision for asset development from 1.5% to 0.7% and rely on the increased revenue from revaluations to generate additional funds to cover the full inflation and cost escalation factors (including labour and construction cost increase forecasts of 4.5%) and generate incremental untied cash to cover past deficits and for creation of a working capital capacity.

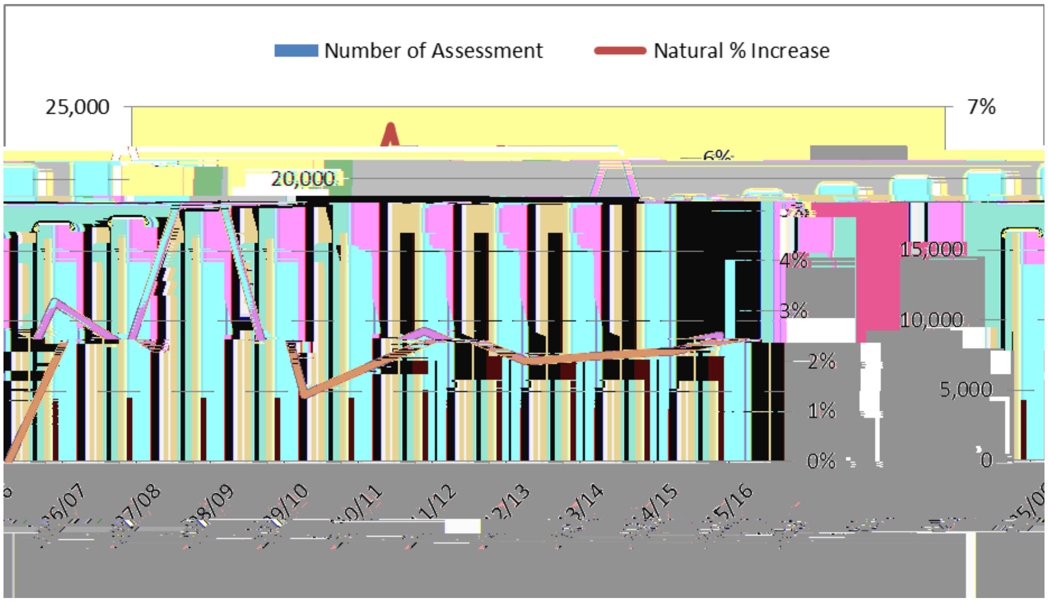
The City's budget is influenced by the applicable rate increase applied each budget year. Key considerations when 2012-2013 rates increases were being determined:

- Excessive reduction of rates in response to 2008 revaluations, handicapping the ability of the City to generate viable working capital capacity, while maintaining basic service levels, and endeavouring to address the needs of a rapidly growing community;
- Modest levels of increased rating in years subsequent to 2008, before financial sustainability principles were first introduced via 2011-12 budget decisions; and
- Escalating cost of providing services, with CPI forecast at 3.5% but with both labour and construction cost indices forecast to increase by 4.5%, and continuing escalation of costs of utilities provided by State authorities.

The burden of additional costs including State utilities and charges, transport and a lack of competition in the local economy across a range of sectors, is a key disadvantage compared to other localities. While there is a relatively high level of expectation in the community in relation to service levels and additional public facilities and amenities it is becoming increasing difficult to maintain current service levels without increasing revenue collections, sufficient to cover costs of maintaining service levels and meeting community expectations.

Number of Rateable Properties

The following chart shows the increase in rateable properties from 2005/06 to 2014/15.



Budget Year	Actual no. of Rateable Properties	Increase in %	Increase by Number
2005/06	16,394	0%	0
2006/07	16,917	3%	523
2007/08	17,297	2%	380
2008/09	18,443	7%	1,146
2009/10	18,689	1%	246
2010/11	19,057	2%	368
2011/12	19,554	3%	497
2012/13	20,051	2%	391

Across the past 5 years, average growth in number of rateable n Ic .91.6.6(ss)6.as been 3.07% c . year.

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		2009/2010	2010/2011	2011/2012	2012/13
[redacted]	General Rate	3.75%	3.75%	3.75%	3.5%
	Asset Renewal		2.50%	2.50%	2.5%
	Asset Development		1.35%	1.35%	0.7%
	Proposed increase:	3.75%	7.60%	7.60%	6.7%
	Rate in Dollar:	8.2753c	8.9042c	16.5555c	17.6647c
[redacted]	General Rate	3.75%	3.75%	3.75%	3.5%
	Asset Renewal		2.50%	2.50%	2.5%
	Asset Development		1.35%	1.35%	0.7%
	Proposed increase:	3.75%	7.60%	7.60%	6.7%
	Rate in Dollar:	8.2753c	8.9042c	9.5809c	10.2228c
[redacted] Non Residential GRV	General Rate	4.50%	3.75%	3.75%	3.5%
	Asset Renewal		2.50%	2.50%	2.5%
	Asset Development		%		

Comparative Rates Data

Information taken from the DOMAIN Property Research Report by Suburb
for the period March 2010 to March 2011

LOCAL AUTHORITY	MEDIAN HOUSE SALES TO MAI5s5415( )H013