MOORE STEPHENS

STRATEGIC RATE REVIEW

Shire of Ashburton

MAY 2017

Contents

Executive Summary

In May 2015, UHY Haines Norton prepared a strategic rate review for the Shire of Ashburton on the current rating structure applied by the Shire. After the review, the Council made changes to its rating outcomes.

The Shire engaged Moore Stephens in early 2017, to update the review with current information and again provide a strategic review of the rating structure applied in the 2016-17 Budget.

The Shire of Ashburton has undergone a period of rapid growth and development as the community has experienced the Mining construction boom and fluctuations in the State's economy. Demand for new infrastructure and facilities is still high and maintaining existing services is placing pressure on the Shire's revenue sources. As the primary source of discretionary revenue, property rates continue to be an essential part of the Shire's revenue mix.

Rates are calculated using values supplied by the Valuer General's Office. Land used predominantly for rural purposes is assessed based on its Unimproved Value (UV) with all other land valued on the annual Gross Rental Value (GRV). Any change to the method of valuation for individual portions of land are determined by the Minister for Local Government and Communities.

A Council may set either a uniform rate in the valuation dollar for each valuation type (GRV or UV) or define differential categories by land use or zoning within each method of valuation and apply a different rate in the valuation dollar to each. The Shire of Ashburton applied two differential rates to GRV valuation properties and three differential rates to UV properties in the 2016-17 budget year as follows:

Gross Rental Values	Cents in the Dollar	Unimproved Values	Cents in the Dollar
Residential/Community	5.0961	Mining/Industry	38.2467
Commercial/Industrial/Tourism	5.1060	Tourism	16.2445
		Pastoral	6.0154
		Residential	5.0961

In the 2016-17 Budget the Shire rated 3,897 properties, 2,804 GRV and 1,093 UV estimating $25.8m in revenue, $5.0m (20%) from GRV and $20.8m (80%) from UV properties.

The proportion of rate revenue sourced from UV valuations has increased significantly over recent years from 58% in 2010-11 to 80% expected in 2016-17, principally due to the addition of a small number of large value UV assessments.

The minimum payment levels adopted by the Council in 2016-17 were:

Gross Rental Values	Minimum	% of Total Prop.	Unimproved Values	Minimum	% of Total Prop.
Residential/Community	$740	6%	Mining/Industry	$925	41%
Commercial/Industrial/Tourism	$925	25%	Tourism	$925	Nil
Wittenoom Townsite	$555	N/A	Pastoral	$925	22%
			Residential	$740	Nil

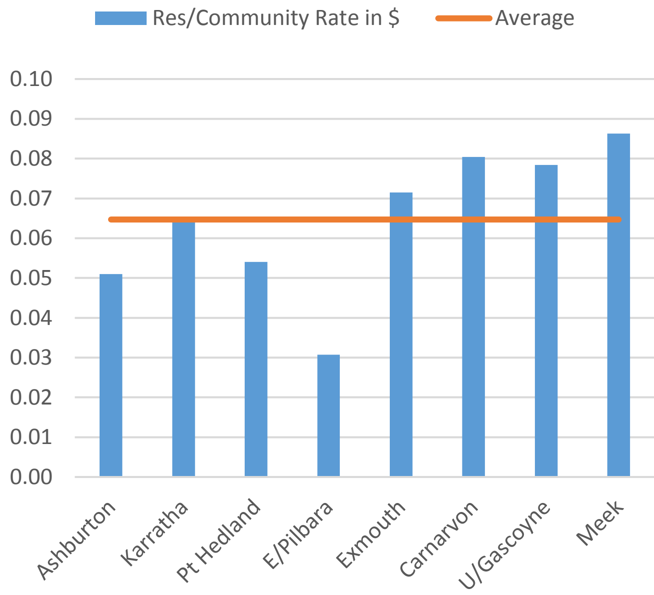
Executive Summary (Continued)

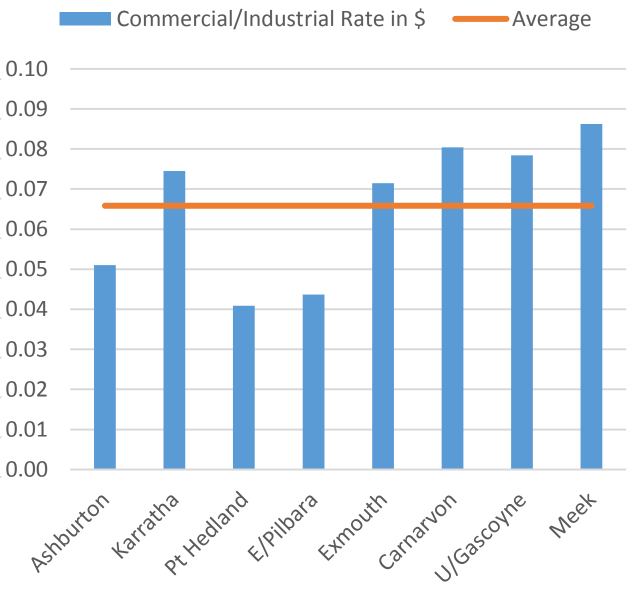
The review established a comparison group of seven (7) local governments all with a common border with the Shire of Ashburton. The source comparison data was the published 2016-17 Budget.

Gross Rental Value Properties

The GRV rate in the dollar and estimated average GRV rates payable per property (separated into the various property classifications) for 2016-17 year is set out below:

GRV rate in the $	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
General/Residential/Other	0.050961	0.065211	0.054074	0.030723	0.071500	0.080437	0.078400	0.086281
Transient Workforce Accom.		0.321484	0.260000	0.043653				
Comm./Ind./Centre	0.051060	0.074517	0.040875	0.043653				
Industrial/Mixed Business		0.057244	0.027529	0.015438				
Tourist/Holiday Accommodation			0.114339		0.101100			
Strategic Industry/Airport		0.128666						
Nullagine Town				0.043500				
Vacant					0.1205			
Marina					0.0983			





GRV Average Rate Yield	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
General/Residential/Other	$ 1,688	$ 2,318	$ 2,582	$ 1,248	$ 1,779	$ 1,971	$ 435	$ 1,161
Transient Workforce Accom.		$ 294,144	$ 603,408	$ 80,259				
Comm./Ind./Centre	$ 7,197	$ 10,748	$ 7,678	$ 6,943				
Industrial/Mixed Business		$ 8,832	$ 4,678	$ 2,219				
Tourist/Holiday Accommodation			$ 84,154		$2,203			
Strategic Industry/Airport		$ 78,349						
Nullagine Townsite				$ 620				
Vacant					$ 1,526			
Marina					$ 3,596			

Executive Summary (Continued)

The estimated average rates levied on residential/community properties by the Shire of Ashburton in the 2016-17 Budget was $1,688. This average occurs close to the middle of the distribution of all residential/community rating outcomes suggesting it is broadly representative of the majority of events. The average residential rates payable outcome in the comparison group was slightly lower at $1,648 per property. Residential/community rates contributed 80% of the total rates revenue from GRV properties, which was similar to the average contributions to GRV revenue by residential properties across the comparison group.

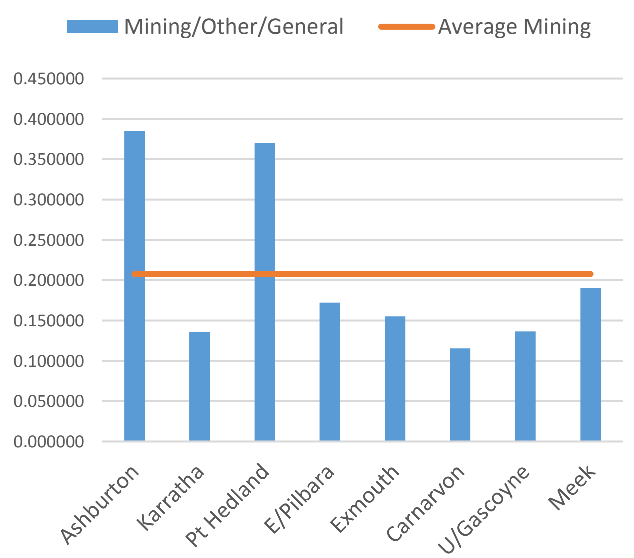
The rate in the dollar for residential/community properties was less than most of the comparison group, with five (5) of the seven (7) adopting a higher rate in the dollar. Caution is advised when comparing GRV rate in the dollars across local governments as some may have a different effective valuation date. In the comparison group, all but Exmouth and Carnarvon were valued at a similar effective date as Ashburton, being 2014.

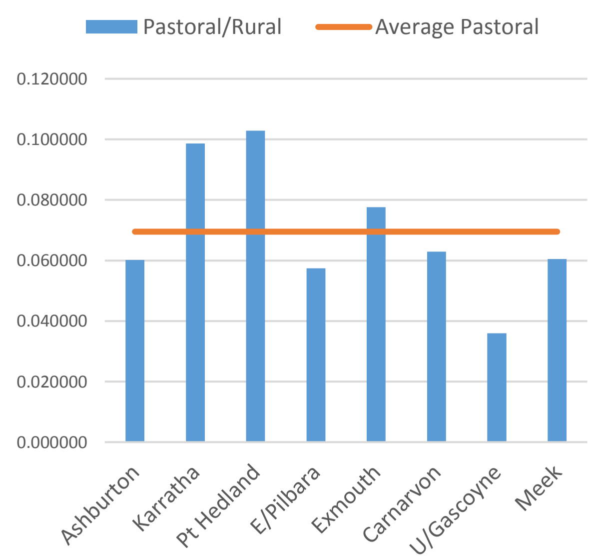
The average rates payable for GRV Commercial/Industrial properties in the 2016-17 budget was $7,197 which was less than the average across the comparison group of $8,141. For Ashburton, the rate in the dollar was 5.1060 which was lower than the group average of 6.5840 with five (5) of the seven (7) local governments adopting a higher rate in the dollar.

Unimproved Value Properties

The UV rate in the dollar and average UV rates payable per property (separated into various property classifications) for 2016-17 are set out below:

UV rate in the $	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Mining/Other/General	0.384670	0.136288	0.370000	0.172335	0.155200	0.115407	0.136600	0.190389
Other Rural			0.210000					
Pastoral/Rural	0.060154	0.098627	0.102877	0.057399	0.077600	0.062950	0.036000	0.060440
Plantations						0.007844		
Rural Residential	0.050961							
Strategic Industry		0.171072						
Tourism	0.162445							





Executive Summary (Continued)

Average UV Rate Yield	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Mining/Other/General	$ 32,007	$ 51,199	$ 3,762	$ 5,650	$ 2,904	$ 2,939	$ 2,877	$,460
Other Rural			$ 21,936					
Pastoral/Rural	$ 11,758	$ 25,577	$ 12,326	$ 6,155	$ 5,399	$ 5,397	$ 2,052	$7,261
Plantations						$ 3,149		
Rural Residential	$ 114,662							
Strategic Industry		Incl. in Mining						
Tourism	$ 14,011							

UV Commercial/Industrial properties are characterised by a small number of high value properties contributing the majority of the rate revenue. This presents a significant risk to the Shire if this small number of high value properties reduce in assessed value or can no longer be rated. The rate in the dollar of 38.247 cents was the highest amongst the comparison group, with an average of 20.7611 cents.

Ashburton mining/industrial properties are rated at an average of $32,007 per property compared with the comparison average of $13,225. This average was skewed high due to the influence of a small number of very large rateable properties.

Pastoral properties in the Shire of Ashburton were rated an average of $11,758 per property in the 2016-17 budget, which was more than the comparison group average of $9,491. The rate in the dollar of 6.0154 cents is less than the group average at 6.9506 cents. Four (4) of the seven (7) local governments in the group applied a higher rate than Ashburton however the average was influenced by some high rates applied by Karratha and Port Hedland. The median of rate paid was $6,852 which shows most of the ratepayers in this group pay less than the average of $11,758.

The UV Tourism rate only applied to four tourism operations with an unimproved valuation. The rate in the dollar applied to these properties is 16.2445 cents in the dollar. There is limited opportunity for comparison with other local governments as no other local government applied a differential rate to UV tourism properties. Tourism operations are predominately non-rural in nature and as such, it is considered more suitable to value these four properties using the GRV basis.

Applying a minimum payment seeks to ensure all ratepayers contribute to basic services and facilities. The 2016-17 Budget set a minimum payment per property of $740 to Residential/Community properties, which applies to just under 6% of the number of rateable properties in that category. Seventeen (17) properties in Wittenoom were granted a lesser minimum of $555 (25% less than $740) in recognition of a reduced service level in the town. All other properties attracted a higher minimum rate level $ 925.

Using a similar methodology to the UHY Haines Norton (2015) review, we analysed the 2016-17 Budget to aggregate accounts considered applicable to 'basic' services and facilities. These items displayed similar characteristics to a 'public good' being non-exclusive services and infrastructure of benefit to, or accessible by, all in the community. In the 2014-15 budget an amount of was $831 calculated whereas using the same principles in the 2016-17 budget the amount calculated was $1,393. The increase can be attributed to a higher amount of road depreciation assumed to be the result of revaluation of infrastructure assets. It is not suggested consideration be given to a change the minimum payments levels because of this calculation without first reviewing of the reasonableness and consistency of the road depreciation estimate in the 2016-17 Budget.

Executive Summary (Continued)

A comparison with other local governments of rate revenue outcomes adds context to the review but has limited capacity to determine what an appropriate rating structure is. That said, it is one of the few mechanisms available to the Council to justify rating outcomes to the community and our comparison serves to highlight the variations in rating methods used by neighbouring local governments.

Each local government use their rating structure to achieve their individual strategic aims such as encouraging development of vacant land or mining exploration. The level of revenue required to provide current and future service levels is a decision for each Council justified by strategic, long-term financial planning and asset management planning in the context of the region and cannot be condensed to a mathematical equation. The Shire's current strategic community plan highlights the many challenges and demands faced by the Shire now and in the future as it reacts to community expectation.

To establish a conceptual framework within which the Council may apply its discretionary rating power, we outlined five established rating principles:

- Objectivity;
- Fairness and Equity;
- Consistency;
- Transparency; and
- Administrative Efficiency.

These principles have been drawn from those published by the Department of Local Government, Sport and Cultural Industries (Department). Rating structures should identify the predominate use of the land by means of an objective assessment. Rates should be applied fairly and equitably resulting in each property making a fair contribution to revenue based on the method of valuation. The rating principles should be applied and determinations made in a consistent way and should be clearly documented and available for public inspection while the structure should also be cost effective.

In assessing Ashburton's rating structure and outcomes considering the above principles, the proportions of contributing revenue and average rates payable for GRV properties appear appropriate when compared to the comparison group. The groupings are objectively based on land use and the spread of the two differential rates are very close. In relation to consistency, there is room for improvement in that four (4) remote tourism properties are valued on a UV basis rather than GRV and the current single property rated as UV Residential should also be considered for valuation based on a GRV. We observed the basis described for determining the basis of valuation seems to be on its existence within a town site. We encourage, to improve objectivity and consistency, that the predominate use of the land should be the determinate for which valuation method is used. This also applies to those TWA camps currently rates as UV when a spot rate of GRV would be more appropriate.

We acknowledge the existence of a concession for residential/community properties to adjust for a past valuation change. Using concessions in such broad terms to adjust for valuation changes is not sustainable and conflicts with the general premise under the Act that rates should be determined by the value of the property. We would suggest concessions be discontinued at the next opportunity, possibly the next revaluation event.

Transparency is supported by the annual publication of objects and reasons for the differential rate and the establishment of a rating strategy and linkage to the long term financial plan and other strategic plans.

Most of the Shire's rate revenue is derived from UV properties and a high percentage is generated from the Mining/Industrial differential rate. The rate in the dollar is high compared to the comparison local governments and is characterised by a small number of assessments contributing the majority of the revenue.

Executive Summary (Continued)

STRATEGIC ISSUES

The Shire is experiencing a period of rapid growth in the mining, oil and gas industries leading to the high demands for community facilities and civil infrastructure to support this growth. Immediate action to meet this demand requires funding.

Rate revenue has increased substantially over recent years largely due to a small number of high value rateable properties associated with the mining and petroleum industries. This may be an equitable revenue outcome considering the impact these ventures are having on the Shire. However, there are substantial risks associated with a reliance on this 'boom time' revenue from a small number of ratepayers in industries exposed to international market conditions. A cautious approach would see the Shire carefully consider its financing policy and invest in community facilities and infrastructure using accumulated cash reserves rather than resort to borrowings reliant on future revenue and carefully consider the ongoing operational impact of any new facilities and assets.

Although the level of rate revenue is at the Council's discretion, due to the span between the rate in the valuation dollar applied to UV properties the Council is likely to require the prior approval of the Minister each year before it is permitted to adopt its budgets. Although each local government has its own strategic issues, ratepayers will inevitably compare the rate in the dollar between local governments to assess reasonableness. The Shire of Ashburton's rate applied to mining and industrial UV properties is one of the highest in the comparison group and the Council will need to be mindful of the impact of this on external approval process and the perception of a small number of ratepayers making large contributions.

A high proportion of rate revenue source from a small number of ratepayers can also be accompanied by pressure regarding the level of rates payable and requests to justify the benefit provided. In justification of the level of rates contributions the Shire should maintain a rating strategy referencing the five essential principles of a rating system as outlined by the Department. It should ensure transparency in changes in rate revenue yield and a reliance on the predominate use of the land to determine the proportion of rates and ensure a detailed long term financial and asset planning to demonstrate the benefit returned to the community.

We have been informed, a ratepayer has commenced action to the State Administrative Tribunal (SAT) to challenge the methodology applied by the Valuer General's Office to their valuation. This could have a substantial impact on the Shire of Ashburton.

The Shire can only model its proposed differential rates and notice of intention to levy differential rate based on the valuations at hand and in line with the timelines set out under the Act. The timing of the action in the SAT, and its ramification should the action be successful, may not align with the budget deadline.

Considering the outcome of the appeal may have a significant financial impact on budget rate revenue, the Shire will need to consider risk mitigation actions in the 2017-18 budget as outlined in this review. If the action in the SAT is successful and the VGO issues amended valuations in the future, the rate records will need to be adjusted in accordance with section 6.39(1) and (2).

Section 6.40(3) sets out the obligations on the Shire if the reassessment of rates results in a reduction/increase. If a reduction occurs, the Shire should consider seeking legal advice as to its responsibility to provide a refund on request or a credit on future rates. Obviously, providing a credit rather than a refund provides more flexibility to manage the cashflow impact of any large adjustment.

Executive Summary (Continued)

In summary, we make the following recommendations:

- That the Shire apply the objectivity principle by ensuring it makes application to the Minister to change the valuation type from unimproved to gross rental value where it has identified UV land is not used predominately for rural purposes;
- That the Shire take action in the 2017-18 budget to recognise a provision for a potential change in valuation methodology contingent on the outcome of a forthcoming hearing in the State Administrative Tribunal against the Valuer General; and
- That the Shire consider the rationalisation of the current rating structure and future changes as set out in the 2017 rating strategy.

Purpose of the Review

The Shire of Ashburton (the Shire) engaged Moore Stephens (WA) Pty Ltd, to undertake a strategic review of the Shire's current property rating structure to incorporate the following outcomes:

- Review the number and type of rating classes, including differential rating classes;
- Develop a justification for each rating class within each rating category (i.e. UV and GRV), including differential rate justifications such that the Shire can prepare submissions to the Minister for Local Government for the approval of differential rates;
- Prepare a comparison report of rating in the Pilbara and neighbouring Local Governments, containing rate in the dollar, dollar value, percentage of each category's contribution to the whole, the proportion of UV and GRV rating to the overall rating income, and any other matters considered appropriate;
- Consider the rating yield derived from each differential rating class and give consideration as to whether that rating yield is appropriate and justified;
- In particular, review the rating of mining tenements/leases within the Shire with particular attention being paid to the Ashburton North Strategic Industrial Area. Consideration of the future sustainability of those rates is required, including the length of time a tenement/lease may be held and other tenements/leases that are likely to be granted and the timeline in which they will occur;
- Prepare a Rating Strategy for the Shire that will provide a framework for all Rates categories, Minimum Rates and Differential Rates, that incorporates the principles of Objectivity, Fairness and Equity, Consistency, Transparency and Administrative Efficiency in relation; and
- Provide guidance on how Council can undertake meaningful comparisons of Property Rating between other Local Governments.

Legislative and Policy Framework

The power to raise local government property rates is set out under the Local Government Act 1995 (Act). The Council, using a defined process outlined within the Act, determines the level of rates annually.

In adopting its annual budget the Council must consider its current Plan for the Future (comprised of the Strategic Community Plan and Corporate Business Plan) under section 5.56 of the Act.

Within this basic context and subject to the provisions of the Act, the Council is free to use the rating powers to raise rate revenue at the level it determines appropriate.

Determining the appropriate level for rate revenue requires the Council to assess the current and future service needs and aspiration of the community and its capacity and willingness to pay for those services.

VALUATION METHODS

There are two property valuation methods available under Section 6.28 of the Act, Gross Rental Value (GRV) and Unimproved Value (UV).

GRV is '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 is liable for all rates, taxes and other charges thereon and the insurance and other outgoings necessary to maintain the value of the land'.

UV land is 'valued as if it has had no improvements (as though) it remains in its original, natural state, any land degradation is taken into account'

CHANGING VALUATION METHODS

Changing the valuation method applicable to a parcel of land requires application to the Minister for Local Government and Communities (The Minister). If the application is successful, a technical description of the relevant land and a notice of the change in valuation must occur in the Western Australia Government Gazette.

The Department administers the process for the Minister and publishes guidance which provides information on the process involved in making an application.

Where land is jointly used for rural and non-rural purposes there are two methods (detailed below) which are available to apply different valuation methods to portions of the land.

SPLIT VALUATIONS

A split valuation may be applied to a portion of a lot or location. The process involves a local government (at its cost) identifying the area of land in alternate use and making application to the Minister for a split valuation.

SPOT VALUATIONS

Where the alternative use of the land occurs entirely on a separate lot or location (not just a portion), a local government may make application to the Minister for a change in valuation method and, if successful, achieve a spot valuation from the Valuer General.

REVIEW OF PREDOMINANT LAND USE

It is important to closely monitor changes in land use from rural to non-rural and subsequently apply to the Minister for a change of valuation method to ensure the Shire maximises its rate revenue capacity and maintains the objectivity and consistency of its rating structure.

Legislative and Policy Framework (Continued)

CONSULTATION

A change in the valuation method can result in a considerable change in the level of rates levied against a property. For this reason, it is usual for a local government to consult with the property owner(s) prior to any application to the Minister.

EXEMPTIONS FROM RATES

All land in the district is rateable unless exempted under Section 6.26 of the Act. Aside from land owned by the local government, the most common categories of exemptions under the Act are:

- Land owned or controlled by the Crown;
- Land held by a religious body as a place of worship, a related purpose or a school; and
- Land used exclusively for charitable purposes.

To achieve an exemption from rates (other than crown land) the entity is usually required to apply for determination by the Council.

AMENDMENTS TO THE RATE RECORD

On occasions, circumstances require a local government to amend its rate record to change the rateable value, rateability or the rate imposed on land. This amendment may occur for a period of 5 years preceding the current budget. In such circumstances, the local government (as per section 6.40 of the Act) is to reassess the rate payable and give notice to the owner of the additional amount of rate payable. If the change results in a reduced assessment (section 6.40(3) of the Act) the local government:

- may, and if so requested by the current owner of the land is required to, make a refund to that owner of the amount overpaid; or
- is required to allow a credit of the amount overpaid in relation to the land against future liabilities for rates or service charges in respect of that land

MINIMUM PAYMENTS

A local government may impose a general minimum payment to each valuation method (and also within each differential rate category). This results in all properties paying at least a minimum contribution in rates regardless of the property valuation. A lesser minimum can also be imposed on any portion of the district subject to certain requirements.

The Act restricts the maximum number of properties attracting a minimum payment to no more than 50% of the total rated properties. In addition, the number of properties with a minimum payment within each valuation category cannot be greater than 50% of the number of rated properties within that category. If differential rates are applied, the number of properties attracting a minimum payment within each differential rate category can be no more than 50% of the total rated properties within the differential category.

There are exceptions to this general rule, if the basis of applying the differential rate is vacant land the Minister, on application, may approve a level of minimum payment properties greater that 50% of the number of properties. The 50% rule does not apply in any case where the level of minimum payment is $200 or less.

Legislative and Policy Framework (Continued)

SPECIFIED AREA RATES

In accordance with Section 6.37 of the Act, the Shire may impose a specified area rate in addition to a general rate. This type of rate is typically used to fund specific work undertaken for a specific portion of the district. The use of any funds derived from a specified area rate must be used only for the purpose for which the rate was imposed.

Specified area rating is used as a funding source for defined project or service within a limited area. For example, to repay a loan for the construction of a community asset such as a swimming pool or used to accumulate funds to meet future maintenance costs such as with canal walls.

The Shire did not raise a specified area rate in the 2016-17 budget.

UNIFORM GENERAL RATES

As a default, a local government sets a single general rate in the dollar for each valuation type (GRV and UV). This is a uniform general rate in the valuation dollar and applied to all properties within a valuation type regardless of their location or land use.

DIFFERENTIAL GENERAL RATES

Rather than adopting single uniform general rate, a local government may apply different rates in the dollar within each valuation category (GRV or UV). A differential rate may be applied using the following characteristics, or combination thereof:

- The zoning of the land;
- The predominant use (as determined by the local government);
- If the land is vacant or not; and
- Any characteristics prescribed (relevant only to amalgamations).

RESTRICTIONS ON DIFFERENTIAL RATES

Due to the potential for a differential rate to single out ratepayers for a higher average rate contribution than would otherwise be the case, restrictions apply to these discretionary powers to ensure the spread of the rate in the dollar does not result in the highest differential rate being more than twice the lowest differential rate.

A local government may also impose a minimum payment level on differentially rated properties for each category but, like a uniform general rate, generally must ensure no more than 50% of the total rated properties in each differential category attract a minimum payment.

Before imposing a differential rate, a local government must provide local public notice (no earlier than the 1st May each year) of its intention to do so and consider any resultant submissions.

Section 6.36(3) (c) of the Act requires a document describing the objects and the reasons for each proposed differential rate and minimum payment to be available for public inspection.

If a local government seeks to set a differential rate equal to or greater than twice the lowest rate, it must make application to the Minister each year prior to adopting the rate. The application process requires the Council to justify a request for a rate level above limit including evidence of the Council's previous consideration of financial efficiencies and its rates strategy.

Legislative and Policy Framework (Continued)

DEPARTMENTAL GUIDANCE

The Department has developed an operational guideline 'Changing Methods of Valuation of Land, Local Government Operational Guidelines - Number 02 May 2002', in which they suggest 'local governments should have systems and procedures in place to –

- Identify and record any changes in land use;
- Review the predominant use of land affected by significant land use changes; and
- Ensure timely applications for the Minister's approval.'

The guideline goes on to identify five principles the local government should observe as set out below. The Department also released a Rating Policy in March 2016, intended to provide guidance on the process of approval of differential rates under Section 6.33 of the Act. This policy also contains the same five principles as set out below.

	Operational Guidelines - Number 02	Rating Policy (March 2016)
OBJECTIVITY	*As far as possible, the predominant use of land should be reviewed and determined on the basis of an objective assessment of relevant criteria. External parties should be able to understand how and why a particular determination was made.*	*The basis for imposing the rates as per the act, for example zoning land use. Was there an event or issue that prompted the need for a differential rate?*
FAIRNESS AND EQUITY	*Rating principles should be applied fairly and equitably. Each property should make a fair contribution to rates based on a method of valuation that appropriately reflects predominant use.*	*The application of the benefit principle in that it is expected that those bearing the higher rate burden through the imposition of differential rating are receiving greater benefits from council activities*
CONSISTENCY	*Rating principles should be applied, and determinations should be made, in a consistent manner. Like properties should be treated in a like manner.*	*Properties used for a similar purpose should be rated in a consistent way and will the extent of change from the previous year adversely affect the ratepayer.*
TRANSPARENCY	*Systems and procedures for determining the method of valuation of land should be clearly documented and available for the public to inspect. This is fundamental to the "good government" principle upon which the Act is based. The right to govern accompanies the obligation to do so openly and fairly.*	*The extent of public notice regarding the change and compliance with the notice requirements under the Act and Council decision making processes.*
ADMINISTRATIVE EFFICIENCY	*Rating principles and procedures should be applied and implemented in an efficient and cost-effective manner.*	*The extent that the differential rate is the most efficient method to raise the rate revenue required.*

Legislative and Policy Framework (Continued)

The Departments Rating Policy (March 2016) sets out the process for making application to the Minister for approval to set differential rates outside the limits set out in the Act. The update in March 2016, places a greater obligation on the local government to prove it has taken sufficient steps to reduce the requirement to rate at levels above the limits in the Act.

In March 2016, the Department updated its publication 'Rating Policy: Valuation of Land Mining' to clarify the Ministers determination of the basis of valuation of land for capital improvement situated on a mining tenement or a petroleum lease/licence/permit/drilling reservations.

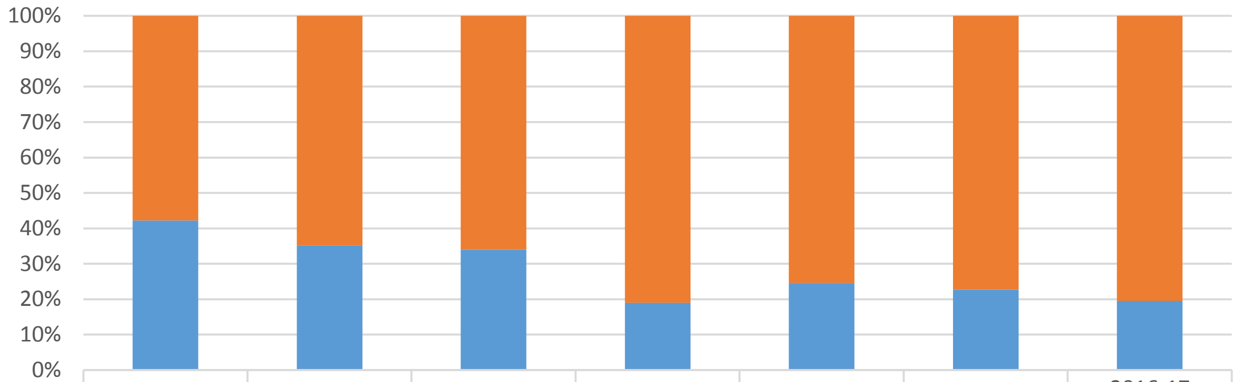
In response to this policy position the Shire of Ashburton adopted Policy no FIN16 'GRV Rating of Improvements on Mining Tenements and Petroleum Licences Sites Policy' signalling its intention to rate workers accommodation facilities and other capital improvements on mining tenements and petroleum licences within the Shire.

Current Rating Structure

At the time of adopting the 2016-17 budget, the Shire of Ashburton reported 3,897 rateable properties 2,804 of which were valued using a Gross Rental Value (GRV) and 1,093 using Unimproved Value (UV). The 2016-17 Budget estimated rate revenue of $25,864,834 (after concessions) with $5,046,518 sourced from GRV and $20,818,316 from UV properties.

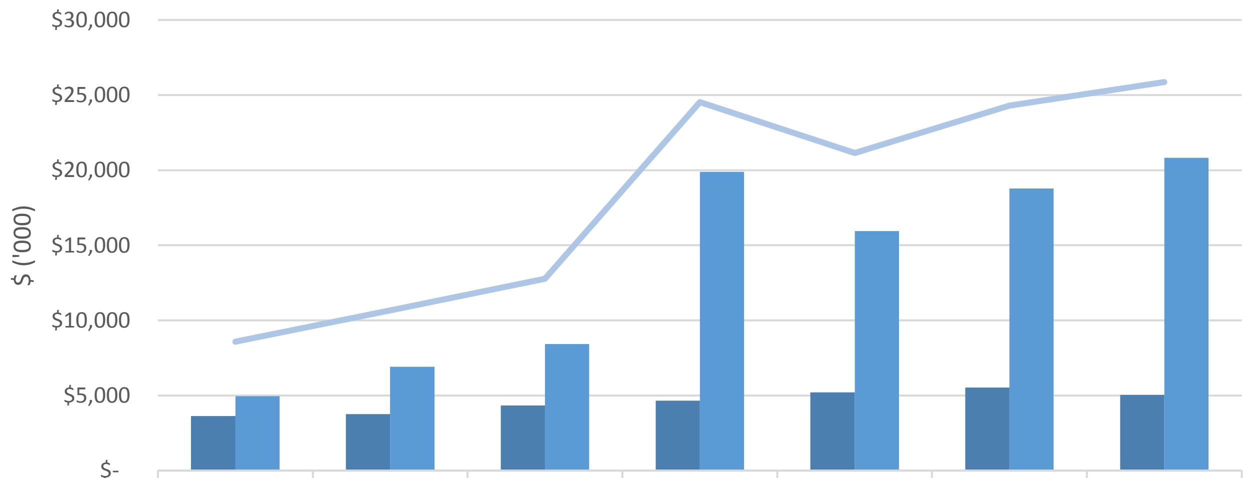
In 2010-11 58% ($4.96m) of rate revenue was sourced from unimproved values rising to 80% ($20.81m) in 2016-17 (Budget).

THE CHANGE TO RELIANCE ON RATING UV PROPERTIES IS EVIDENT IN THE PROPORTIONS OF REVENUE FROM EACH VALUATION CATEGORY OVER TIME.



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 Budget
UV	57.8%	64.8%	66.0%	81.0%	75.4%	77.3%	80.5%
GRV	42.2%	35.2%	34.0%	19.0%	24.6%	22.7%	19.5%

THE REVENUE SOURCED FROM RATES HAS INCREASED SIGNIFICANTLY FROM $8.6M IN 2010-11 TO $25.8M IN 2016-17.



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 Budget
GRV	$3,623	$3,750	$4,343	$4,655	$5,201	$5,519	$5,047
UV	$4,958	$6,913	$8,425	$19,884	$15,938	$18,775	$20,818
Total	$8,581	$10,664	$12,768	$24,539	$21,139	$24,294	$25,865

Current Rating Structure (Continued)

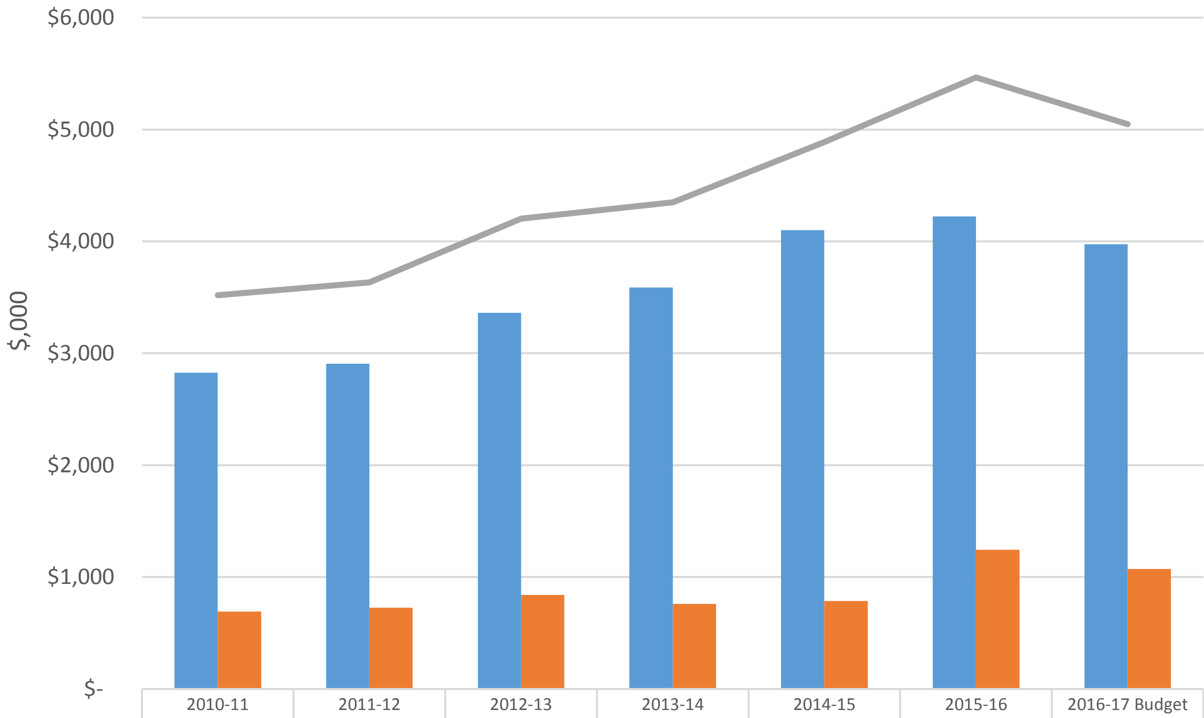
GROSS RENTAL VALUES

The 2016-17 Budget adopted two differential rates associated with the following rating classifications:

- Residential and Community (5.0961 cents in the GRV dollar); and
- Commercial, Industrial and Tourism (5.1060 cents in the GRV dollar).

Differential rates for GRV valued properties were introduced during the 2012-13 financial year. Prior to this a uniform (or single rate in the dollar) applied to all GRV valued properties.

RESIDENTIAL PROPERTIES ARE EXPECTED TO CONTRIBUTE 79% OF THE RATE REVENUE FROM GRV RATED PROPERTIES in 2016-17 (BUDGET).



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 Budget
Residential	$2,828	$2,908	$3,361	$3,589	$4,101	$4,222	$3,974
Comm/Ind.	$691	$727	$841	$760	$785	$1,243	$1,073
Total	$3,519	$3,635	$4,202	$4,349	$4,886	$5,465	$5,047

Generally, the rate revenue sourced from GRV valued properties has remained relatively stable over time as has the proportion generated from each rate classification. At the time of the last GRV general revaluation effective 1 July 2014, in the 2015-16 budget the Council applied a concession to Residential/Community properties to offset the impact of significant increase in valuations. This concession was again applied to the properties in the 2016-17 budget year.

Current Rating Structure (Continued)

UNIMPROVED VALUES

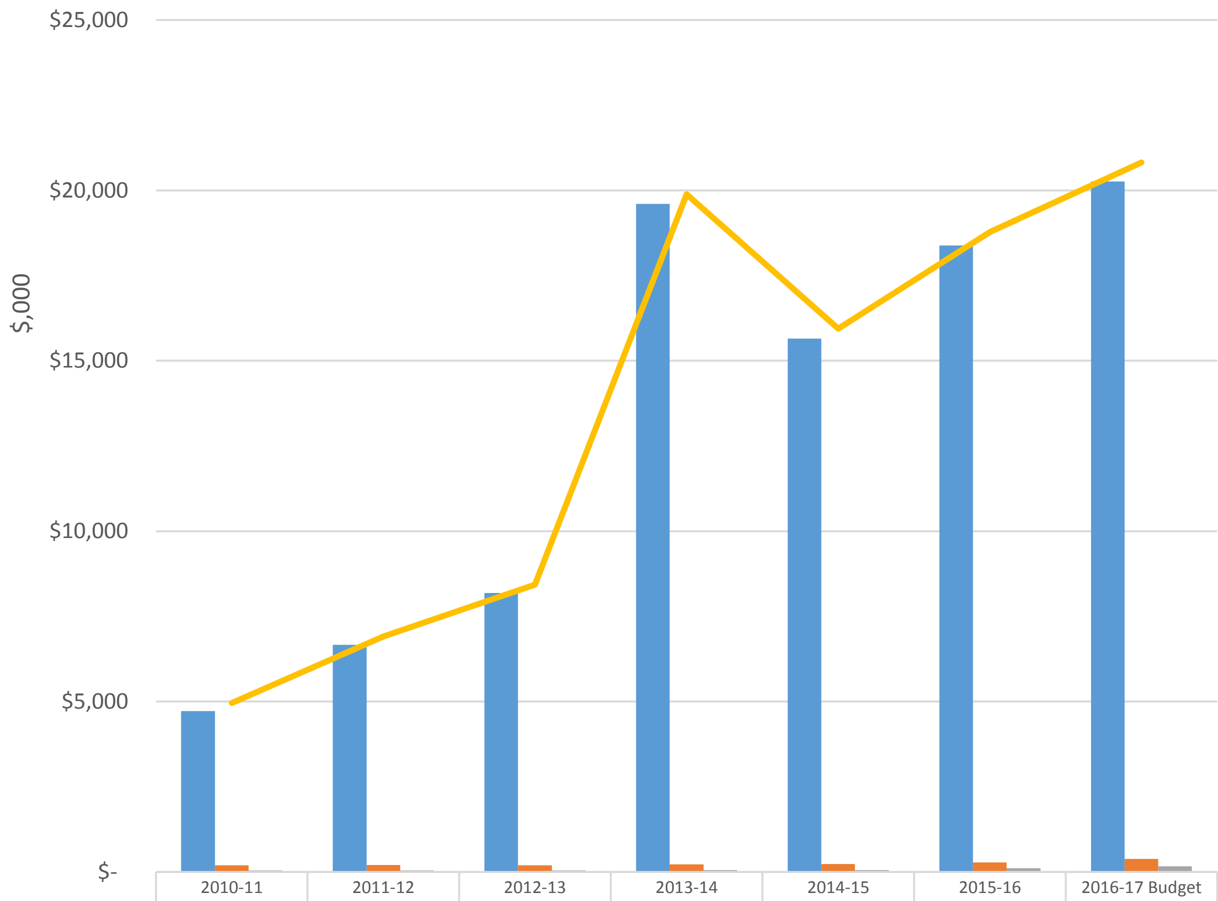
The 2016-17 Budget applied four (4) differential rates as follows:

- Mining/Industrial (38.2467 cents in the UV dollar);
- Tourism (16.2445 cents in the UV dollar);
- Residential (5.0961 cents in the UV dollar); and
- Rural Pastoral (6.0154 cents in the UV dollar).

If any rate in the UV or GRV valuation dollar is set at not less than twice the lowest differential rate (in this case the Residential rate of 5.0961 cents) then the approval of the Minister for Local Government and Communities (Minister) is required prior to adopting the rate. For example, any different rate in the valuation dollar set at or above 10.1922 cents (5.0961 cents x 2) would require approval.

Estimated rate revenue from UV valued properties in the 2016-17 budget was $20.82m, with 97% estimated to come from Mining/Industrial properties.

MINING/INDUSTRIAL PROPERTIES HAVE CONTRIBUTED THE HIGHEST PROPORTION OF RATE REVENUE OVER TIME.



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 Budget
Mining	$4,724	$6,663	$8,183	$19,607	$15,652	$18,379	$20,263
Pastoral	$192	$209	$195	$226	$233	$283	$385
Other	$42	$42	$48	$51	$53	$113	$171
Total	$4,957	$6,913	$8,425	$19,884	$15,938	$18,775	$20,818

Current Rating Structure (Continued)

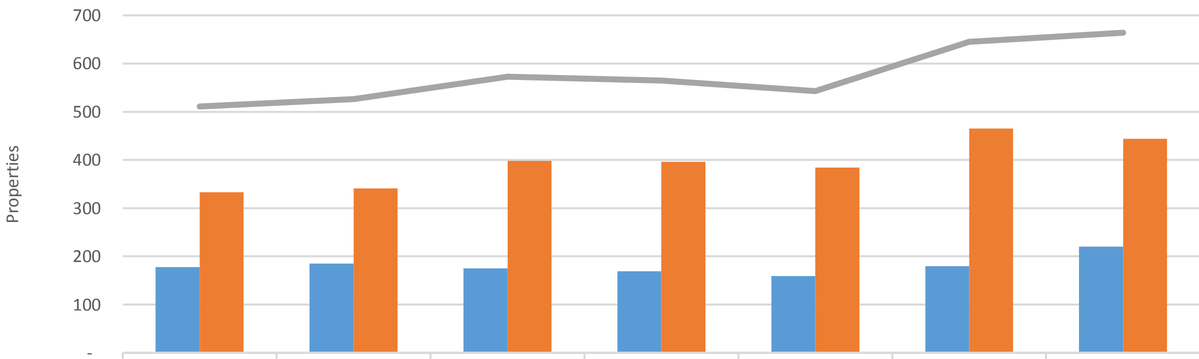
MINIMUM PAYMENTS

In the 2015-16 budget, the Shire of Ashburton changed its minimum payment structure to apply three minimum payment levels. Before this, the Shire applied a single minimum payment level to both valuation categories. The minimum payment levels applied in the 2016-17 budget were as follows:

- Residential/Community General $740
- Residential/Community Lesser $555
  (exclusive to properties located in the Wittenoom town site to reflect the status of the town. Set as 25% less than the general Residential/Community minimum)
- Mining/Industrial/Tourism $925

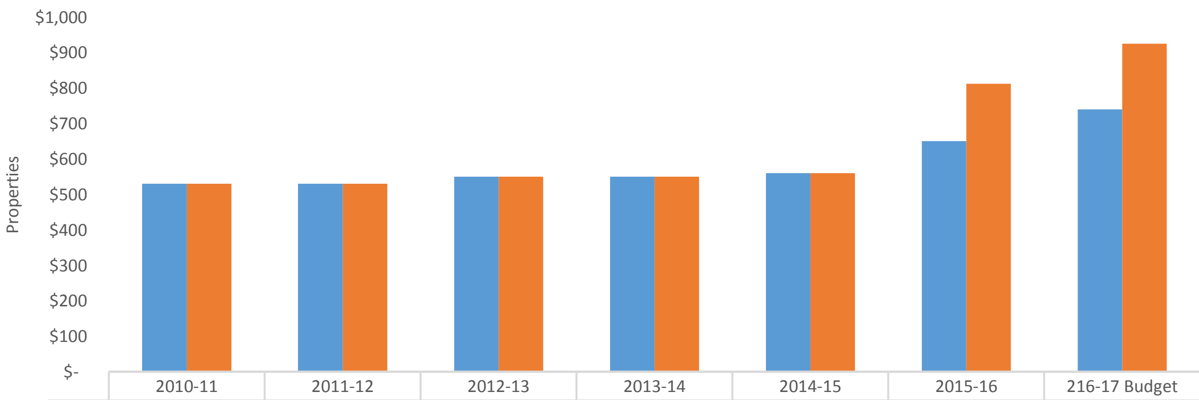
The number of minimum payment properties for GRV and UV valued properties over time is shown below.

THE NUMBER OF PROPERTIES SUBJECT TO A MINIMUM PAYMENT HAS STREADILY INCREASED OVER TIME BUT REMAINS A SMALL PROPOPRTION (17% 2016-17 BUDGET) OF THE OVERALL RATED PROPERIES.



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	216-17 Budget
GRV	178	185	175	169	159	180	220
UV	333	341	398	396	384	465	444
Total	511	526	573	565	543	645	664

THE LEVEL OF DIFFERNTIAL MINIMUM PAYMENTS HAS INCREASSED OVER THE PAST TWO YEARS. BEFORE THIS TIME, THE MINIMUM AMOUNT WAS ADJUSTED ON A TWO-YEAR CYCLE.



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	216-17 Budget
GRV	$530	$530	$550	$550	$560	$650	$740
UV	$530	$530	$550	$550	$560	$813	$925

Comparison

COMPARISON GROUP – 2016-17 BUDGET

We compiled rating data from the 2016-17 budgets to form a comparison group of local governments sharing a boundary with the Shire of Ashburton. The local governments selected to form the group were:

- Shire of Ashburton
- City of Karratha
- Town of Port Hedland
- Shire of East Pilbara
- Shire of Exmouth
- Shire of Carnarvon
- Shire of Upper Gascoyne
- Shire of Meekatharra

Although a comparison of rate in the dollar adds context, it is important to remember different local governments have different effective GRV valuation timings, which may adversely affect a direct comparison. We have disclosed the valuation timing at the top of the GRV rate in the dollar on page 23 for reference. The issue of variable valuation timings is not applicable to UV properties as these values are updated by the Valuer General every year.

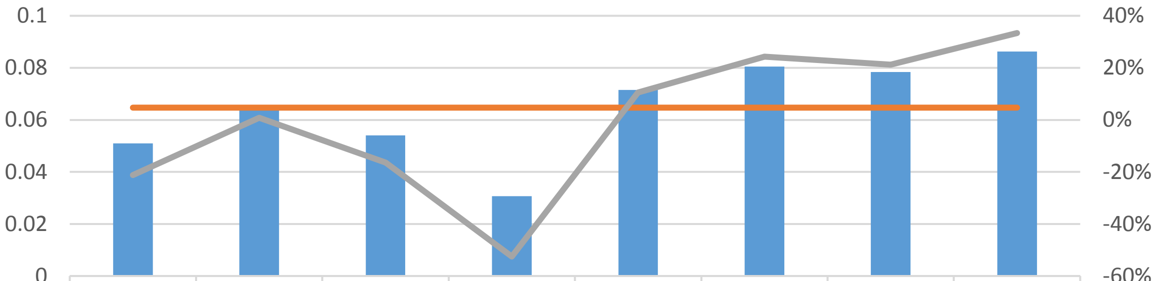
On occasions, due to variation in rating structures a direct comparison of rate yield and rates in the dollar outcomes for all property types was not possible. This is reflected in some local governments not having data in various comparison graphs. In relation to comparisons of the rate in the dollar, a notional rate was applied if the local government did not apply a comparable differential rate. The notional rate in the dollar used was that which would have been applied to the property had it been situated in the relevant local government.

Comparison (Continued)

GROSS RENTAL RATES – RESIDENTIAL/COMMUNITY

The rate applied to Residential/Community properties in the Shire of Ashburton in the 2016-17 budget was 5.0961 cents in the GRV valuation dollar compared to the average across the Comparison Group of 6.4698 cents. This rate applies to properties that have a predominant land use of residential or used by organisations involved in activities for community benefit, including Arts and Craft facilities, Youth Centres, Day Care Centres, Sporting Grounds/Clubs (that do not run a commercial business/kitchen), health & emergency service facilities.

THE RATE IN THE DOLLAR APPLIED TO GRV RESIDENTIAL (OR GENERAL GRV) VARY WIDELY ACROSS THE GROUP IN 2016-17. THE RATE APPLIED BY ASHBURTON WAS ONE OF THE LOWEST AND 21% LESS THAN THE REGIONAL AVERAGE.

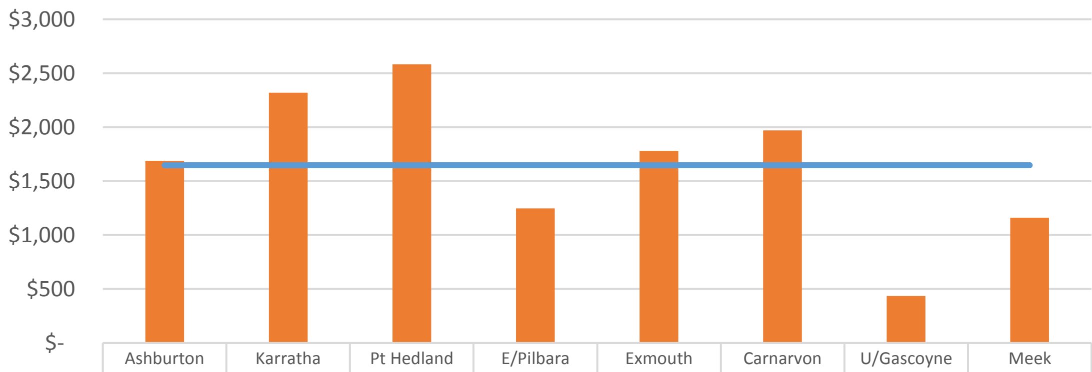


	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Rate in the $	0.050961	0.065211	0.054074	0.030723	0.071500	0.080437	0.078400	0.086281
Average	0.064698	0.064698	0.064698	0.064698	0.064698	0.064698	0.064698	0.064698
Variance %	-21%	1%	-16%	-53%	11%	24%	21%	33%

A direct comparison of rate in the dollar can be misleading, as not every local government has the same effective valuation date for GRV properties. Most of the local governments in the Pilbara were valued in 2014 but some in the Gascoyne were valued in 2013. Rental valuations in urban centres are also influenced by geographic location and local supply and demand.

Another method of comparison is the average rate revenue levied per property. Where the local government did not have a specific differential rate for residential and community properties the uniform GRV rate has been substituted. This was the case for Exmouth, Carnarvon, upper Gascoyne and Meekatharra. The average rate revenue derived by the Shire of Ashburton in 2016-17 for residential/community properties was $1,688, which is slightly above the average of the Comparison Group.

THE SHIRE OF ASHBURTON 2016-17 AVERAGE RATE YIELD FOR RESIDENTIAL/COMMUNITY IS VERY CLOSE TO THE REGIONAL AVERAGE OF THE COMPARISON GROUP.



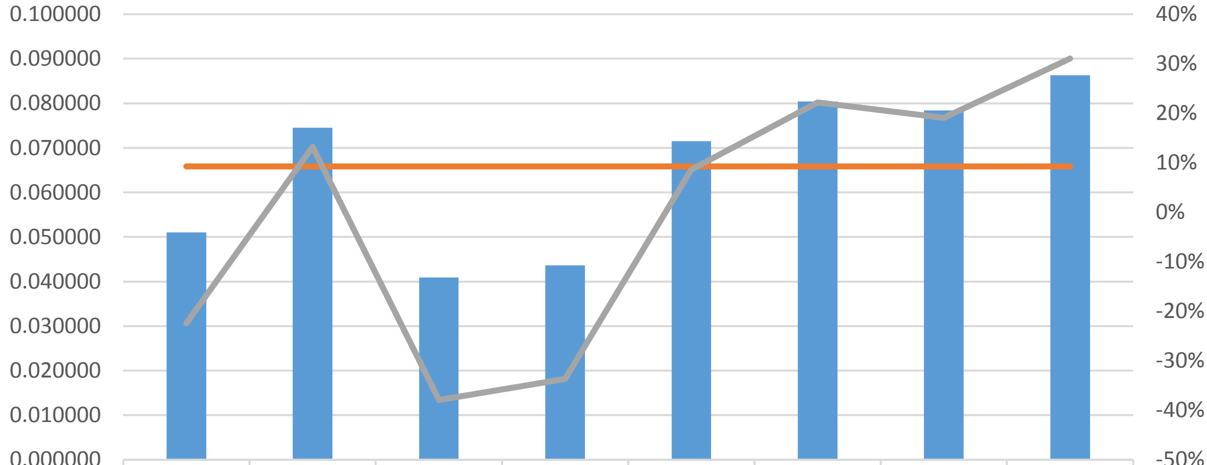
	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Residential GRV	$1,688	$2,318	$2,582	$1,248	$1,779	$1,971	$435	$1,161
Average Residential	$1,648	$1,648	$1,648	$1,648	$1,648	$1,648	$1,648	$1,648

Comparison (Continued)

GROSS RENTAL RATES – COMMERCIAL/INDUSTRIAL

The rate applied to Commercial/Industrial properties in the Shire of Ashburton in the 2016-17 budget was 5.1060 cents in the valuation dollar compared to the average for the reference group of 6.5840 cents.

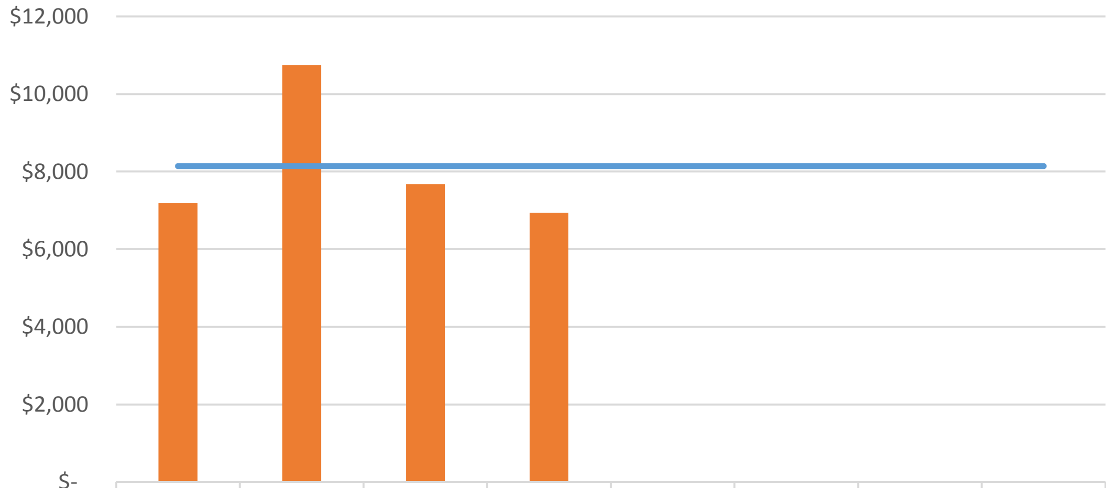
THE SHIRE'S RATE IN THE DOLLAR FOR GRV INDUSTRIAL PROPERTIES IS ONE OF THE LOWER IN THE COMPARISON GROUP FOR 2016-17.



	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Rate in the $	0.051060	0.074517	0.040875	0.043653	0.071500	0.080437	0.078400	0.086281
Average	0.065840	0.065840	0.065840	0.065840	0.065840	0.065840	0.065840	0.065840
Variance %	-22%	13%	-38%	-34%	9%	22%	19%	31%

The average rate for Commercial/Industrial properties for the Shire of Ashburton in 2016-17 was $7,197 compared to the average of the four other local governments of $8,141. Not all local governments in the Comparison Group had a separate or identifiable rate for GRV Commercial/Industrial land.

THE SHIRE'S AVERAGE RATE YIELD FOR GRV INDUSTRIAL PROPERTIES IS AT THE LOWER OF THE AVERAGE IN THE COMPARISON GROUP FOR 2016-17.



	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Comm./Ind./Centre	$7,197	$10,748	$7,678	$6,943				
Average	$8,141	$8,141	$8,141	$8,141	$8,141	$8,141	$8,141	$8,141

Comparison (Continued)

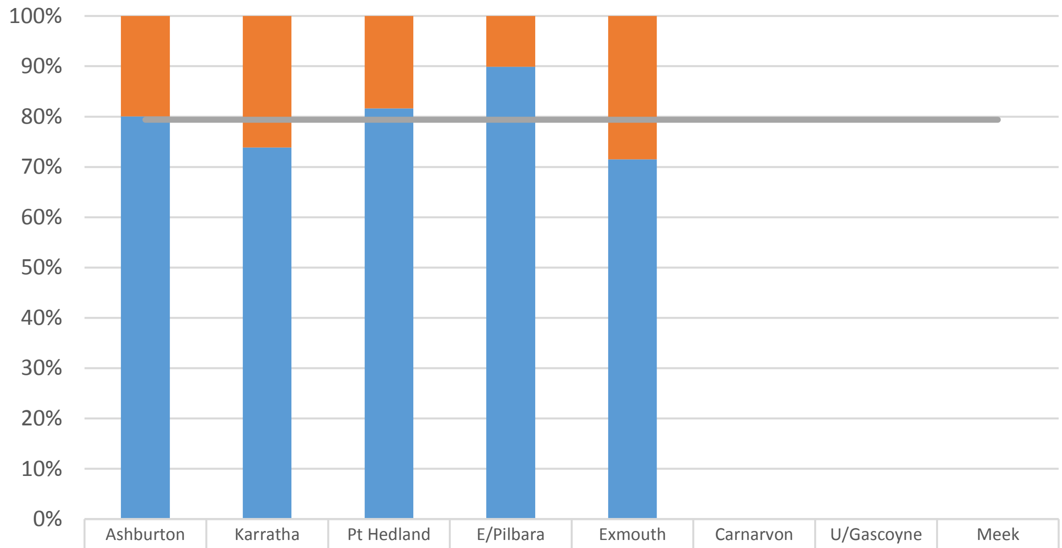
GROSS RENTAL VALUES - STRUCTURE

The Shire applied two differential rates to GRV properties in the 2016-17 budget, one for properties with a residential or community use at 5.0961 cents and one for commercial, industrial and tourism properties at 5.1060 cents in the valuation dollar.

The average residential/community rate yield for Ashburton in the 2016-17 budget was $1,688 per property. This average compared favourably across the Comparison Group and was just above the group average of $1,648 per property. This suggest the rating outcomes for properties with a land use of residential and community are not excessive in the regional context.

The average rate yield for commercial/industrial properties for the 2016-17 budget was $7,197 per property compared to the Comparison Group of $8,141 per property. This also suggest the average rating outcomes for properties with a land use of residential and community are set at a reasonable level in the regional context. The distribution of rating outcomes is characterised by large individual rates for a small number of properties with the top ten (10) properties contributing over 35% of the overall rate revenue for this classification.

Although there are several variations within the Comparison Group, many of the differential rates categories can be classified as either residential or commercial/industrial properties. When all the differential rates are aggregated analysis of each categories contribution to the overall GRV revenue is be assessed as follows:



	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Non-Residential	20.0%	26.1%	18.4%	10.1%	28.5%			
Residential	80.0%	73.9%	81.6%	89.9%	71.5%			
Average	79%	79%	79%	79%	79%	79%	79%	79%

Rates derived from residential type properties in the Shire of Ashburton 2016-17 budget was 80% of total revenue generated from GRV properties compared to the comparison group average of 79%.

When differential rates are applied, it is relatively common practice for urban centres to differentiate the rate in the dollar applied to commercial and industrial and apply a premium to these types of properties. The Shire of Ashburton applies a premium of 0.2% on the rate in the dollar above the residential/community differential rate, however offers a concession to Residential/Commercial properties estimated to be $272,147 in the 2016-17 Budget.

Comparison (Continued)

The Shire of Ashburton's financial information does maintain fine detail sufficient to identify the costs associated with each land use classification. In the absence of this information, we sought to identify instances of services and assets that would support the case for commercial and industrial properties being levied a higher rate due to higher service levels than residential properties, for example:

- Rubbish collection in commercial centres;
- higher town planning administration costs;
- higher health inspections and administration costs;
- added complexity in building control;
- higher traffic volumes and vehicle mass associated with commercial and industrial activity;
- the requirement for increased parking facilities and traffic management;
- Higher service levels for pedestrian access;
- Commercial and industrial signage; and
- Street Furniture and Streetscape works.

The application of a concession offered to residential/community properties reduces the contribution made by this category and, due to the similarity in the rate in the dollar, effectively represents the additional contribution made by commercial/industrial properties to the expenses outlined above.

VARIATIONS IN GRV RATING STRUCTURES

In assessing of variations in rating structures within the Comparison Group, four local governments (Carnarvon, Upper Gascoyne and Meekatharra) apply a single uniform rate to all GRV rated properties. Of the remainder, the number of differential rate categories varies from two (2) to five (5).

Karratha, Port Hedland and East Pilbara have a separate GRV rate applicable to transient/mass workforce accommodation with Karratha and Port Hedland applying a rate at significant multiples of the general GRV rate in the dollar. Transient workforce accommodation is also singled out for a separate rate at East Pilbara with an increase of 42% above the general residential rate.

Exmouth has structured its rating to encourage owners to develop vacant land by applying a higher rate in the dollar to vacant residential and commercial/industrial land. A higher rate is also attached to land at the Marina.

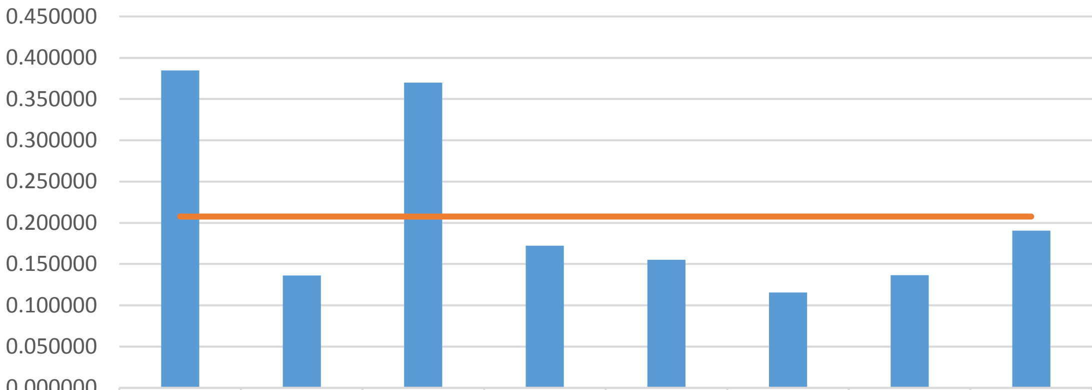
	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Last Valuation Date	2014	2014	2014	2014	2013	2013	2014	2014
General/Residential/Other	0.050961	0.065211	0.054074	0.030723	0.071500	0.080437	0.078400	0.086281
Transient Workforce Accom.		0.321484	0.260000	0.043653				
Comm./Ind./Centre	0.051060	0.074517	0.040875	0.043653				
Industrial/Mixed Business		0.057244	0.027529	0.015438				
Tourist/Holiday Accommodation			0.114339		0.101100			
Strategic Industry/Airport		0.128666						
Nullagine Town				0.043500				
Vacant					0.1205			
Marina					0.0983			

Comparison (Continued)

UNIMPROVED – MINING/INDUSTRIAL

The rate applied to mining/industrial properties in the Shire of Ashburton in the 2017-18 budget was 38.2467 cents in the dollar (unchanged from 2016-17 budget) compared with the average across the Comparison Group of 20.7611 cents.

ASHBURTON HAS THE HIGHEST RATES IN THE DOLLAR FOR MINING/INDUSTRIAL IN THE COMPARISON GROUP FOR 2016-17.

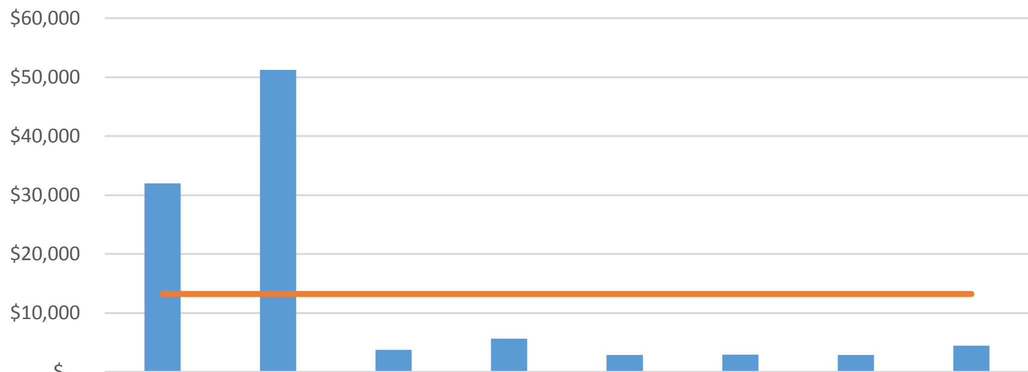


	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Mining/Other/General	0.384670	0.136288	0.370000	0.172335	0.155200	0.115407	0.136600	0.190389
Average Mining	0.207611	0.207611	0.207611	0.207611	0.207611	0.207611	0.207611	0.207611

The Shire of Ashburton applies the highest rate in the dollar for mining related properties in the Comparison Group followed closely by Port Hedland at 37 cents with the others grouped between 10 and 20 cents in the valuation dollar. It is noted, the Town of Port Hedland sought a rate in the dollar of 40 cents for Mining properties but were not successful in their application to the Minister and gained approval for 37.000 cents.

Amongst the Comparison Group, the City of Karratha set a higher rate (17.1072 cents) on UV properties categorised as Strategic Industry which is applied to any land that is predominately used for industrial purposes, or resource processing, or supporting a transient workforce. In the graph below the revenue from this Strategic Industry differential rate has been categorised as mining for comparison purposes.

THE ESTIMATED AVERAGE RATE YIELD PER PROPERTY FOR UV MINING INDUSTRIAL IN 2016-17.



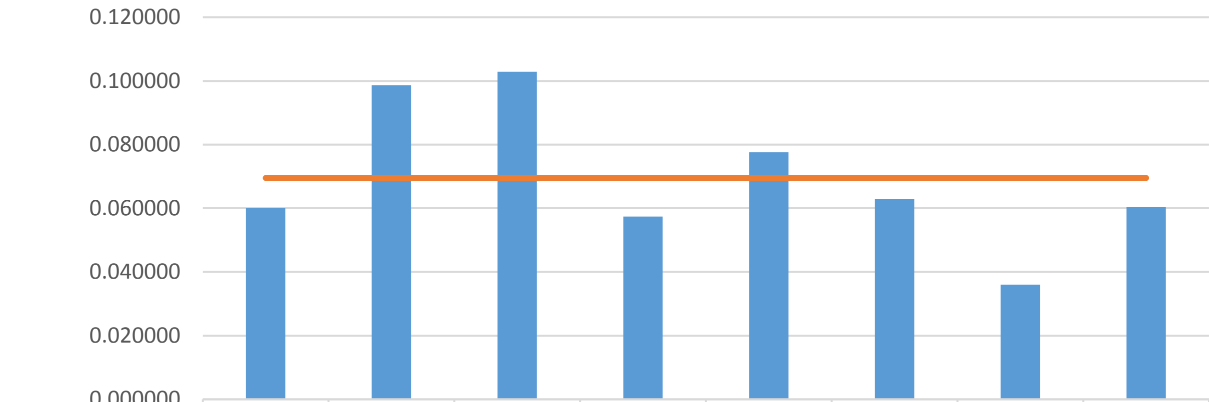
	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Mining/Other/General	$32,007	$51,199	$3,762	$5,650	$2,904	$2,939	$2,877	$4,460
Average Mining	$13,225	$13,225	$13,225	$13,225	$13,225	$13,225	$13,225	$13,225

Comparison (Continued)

UNIMPROVED – PASTORAL LEASES

The rate applied to pastoral properties in the Shire of Ashburton for the 2016-17 budget was 6.0154 cents in the dollar compared to the average across the reference group of 6.9506 cents.

COMPARISON PASTORAL UV RATE IN THE DOLLAR 2016-17.

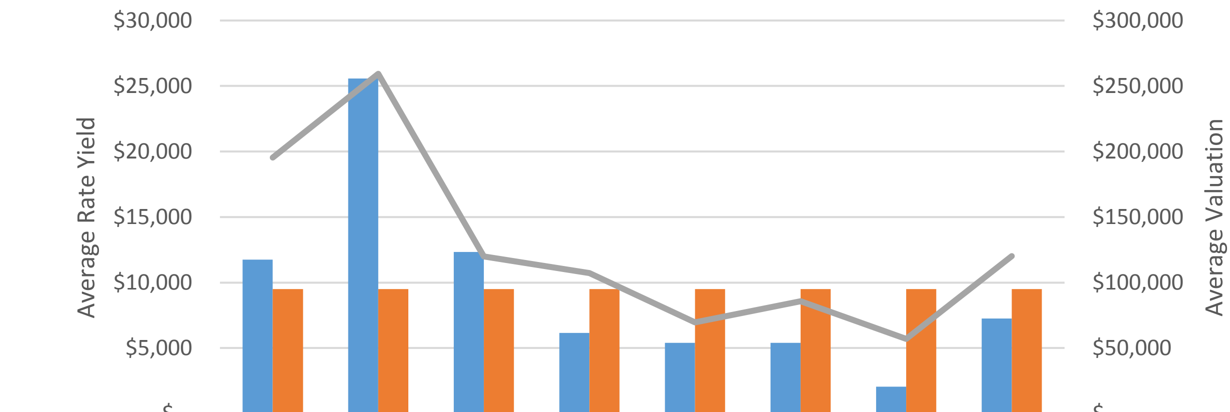


	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Pastoral/Rural	0.060154	0.098627	0.102877	0.057399	0.077600	0.062950	0.036000	0.060440
Average Pastoral	0.069506	0.069506	0.069506	0.069506	0.069506	0.069506	0.069506	0.069506

Port Hedland applies the highest pastoral rate in the valuation dollar and Upper Gascoyne the lowest rate. A common characteristic of all local governments applying a pastoral differential rate is that it is considerably lower than other UV rate classifications. In many cases this is attributed to the relatively high valuations applied to pastoral properties by the Valuer General's Office compared to a perceived capacity to pay.

The average rate revenue per property (Ashburton in 2016-17) for pastoral properties was $11,758, which is above the Comparison Group average of $9,491. The highest rate yield was Karratha with an average of $25,577 and the lowest was Upper Gascoyne with $2,052 per property. The average pastoral UV valuation per property is shown as a line on the following graph. Generally, the higher the rate yield is a result of the higher than average valuation per property.

COMPARISON OF PASTORAL AVERAGE RATE YIELD AND AVERAGE VALUATION PER PROPERTY 2016-17.



	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Pastoral/Rural	$11,758	$25,577	$12,326	$6,155	$5,399	$5,397	$2,052	$7,261
Pastoral Average	$9,491	$9,491	$9,491	$9,491	$9,491	$9,491	$9,491	$9,491
Average Valuation	$195,463	$259,332	$119,811	$107,235	$69,580	$85,732	$57,006	$120,130

Comparison (Continued)

UNIMPROVED – TOURISM

The Shire of Ashburton applies a UV rate in the dollar to four (4) properties used for tourism activities located outside a town site. Within the group, no other local government applied a similar rate to facilitate a comparison. Details of the rate applied in 2016-17 are as follows:

Rates in the dollar	Average Rate yield	Highest Yield	Lowest Yield
16.2445c	$14,010	$32,489	$3,249

The tourism classification of properties relates to land predominately used for providing a tourism service, including Caravan Parks and Holiday Accommodation.

At the time of the 2016-17 Budget, the four (4) properties yielded a total of $56,044. They were located on Thevenard Island, Direction Island, Karijini and Wilderness Island. In the previous UHY Haines Norton (2015) report the suggestion was made that these properties should be valued on a GRV basis if the predominate use is not rural. Rating based on UV remains.

Regardless of the location, properties not used for rural purposes should be valued on a GRV basis. The impact of changing valuation methods to GRV and cannot be assessed until the Shire gains indicative GRV valuations for the properties. The rate applied to these properties would be the same rate applied to GRV Commercial/Industrial/Tourism properties (in 2016-17 the rate was 5.1060). As mentioned previously, the Shire is not able to set a rate based on the location of the property. If rating the properties based on their GRV using the existing differential rate category would cause inequity based on the location of the four (4) properties, it is open to the Council to apply a concession to correct this inequity.

The Shire is required to seek Ministerial approval annually if it intends to set the rate in the dollar at levels comparable to previous years. This is due to the rate being not less than twice the lowest rate applied to UV properties (in 2016-17 this was 5.0961 for the single UV residential property). If the four (4) tourism properties in UV were valued as GRV then Ministerial approval would not be required.

UNIMPROVED – RESIDENTIAL

The Shire of Ashburton applies a UV rate in the dollar of 5.0961 to one (1) property in Onslow zoned urban development. Within the group, no other local government applied a similar rate to allow a direct comparison to occur. In the 2016-17 budget, the Shire estimated to receive $114,662 in rates from the owner of property.

The Shire developed a separate differential rate category for this property for the following reason:

Objects and Reasons -UV Residential Differential Rate: This land is zoned Urban Development and could not be considered Commercial or Industrial or Mining and therefore does not suit to that category so a new differential rate called UV Residential has been created.

The reason the UV Residential rate has been applied at a similar rate as GRV Residential on the basis the land is urban and destined for urban develop and exhibits all the characteristics GRV Residential land but exits in a UV area.

Essentially, if the use of the land is not predominately used for rural purposes then it should be considered for an application to the Minister for a change in valuation method from UV to GRV. The inclusion or exclusion of the property within a town site is not relevant to it's predominate use and does not preclude the property being valued on a GRV basis.

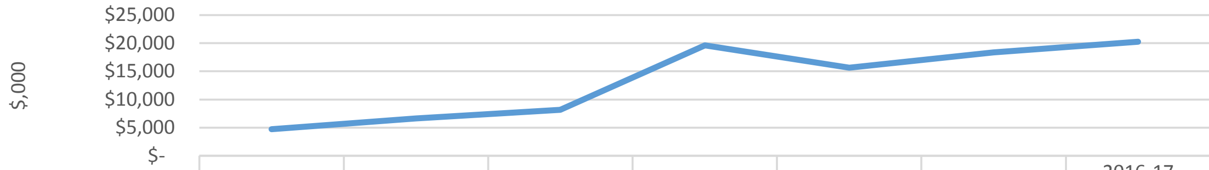
Comparison (Continued)

UNIMPROVED VALUES - STRUCTURE

Analysis of the revenue proportions shows approximately 62% of the UV rate revenue is derived from Industrial and 36% from Mining with only 2% coming from pastoral and tourism properties.

The level of valuations for mining/industrial properties has increased sharply in recent years. This increase in rates valuation was applied with an increase in the rate in the dollar resulting in a substantial jump in rate revenue. It is common practice for the rate in the dollar to be adjusted so any increase in the percentage of rate revenue is referenced as a change in the rate yield rather than expressed as a percentage increase in the rate in the dollar. This practice does not seem to have been consistently applied in the past.

INCREASE IN THE LEVEL OF REVENUE DERIVED FROM RATING MINING/INDUSTRIAL PROPOERTIUES OVER TIME



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 Budget
Mining	$4,724	$6,663	$8,183	$19,607	$15,652	$18,379	$20,263

The Council has wide discretionary rating powers under the Act to set the rate revenue at a level necessary to meet the needs of the community. These community needs are reflected by current and future service levels underpinned by infrastructure assets and community facilities. It is up to the Council to decide the appropriate level of rate revenue required to support current and future service levels. Intervention by the Minister in this process, by way of prior approval, is only required when the Council seeks to apply a differential rate in a circumstance where the rate is not less than twice the lowest rate in that valuation category.

The distribution for Mining/Industrial rate outcomes shows a distinct 'top heavy' spike at the top end of the distribution as very few assessments contribute a disproportionate percentage of the rate revenue. This situation presents a threat to UV rate revenue sustainability should these leases or activities no longer attract rates to this level or the valuations are changed or cancelled. To rely on these few assessments to generate rate revenue to fund future levels of operations, borrowings or to support infrastructure represents a high level of risk. In managing this risk the Council needs to carefully consider the purposes to which it puts this revenue, its sustainability and the impact of increasing service levels into the future. The prudent use of cash reserves to fund infrastructure rather than borrowings and the careful assessment of the operational impact of providing new infrastructure and services are recommended in the face of this financial risk.

We have been informed, a ratepayer has commenced action to the State Administrative Tribunal (SAT) to challenge the methodology applied by the Valuer General's Office in determining the unimproved valuation of their lease with a view to significantly reduce the valuation. It is understood this action may represent a test case and may impact on the future UV valuation methodology for all strategic industrial sites and TWA's. The hearing is likely to occur in June or July 2017.

Comparison (Continued)

UNIMPROVED VALUES - STRUCTURE (CONTINUED)

In considering the Shire's position if this action was to be successful and its implications for the Shire's rating outcomes, we provide the following comment.

- The Shire can only model its proposed differential rates and notice of intention to levy differential rate based on the valuations at hand and in line with the timelines set out under the Act;
- The timing of the action in the SAT, and its ramification should the action be successful, may not align with the pre-1st September 2017 adoption deadline contained in the Act.
- The Shire has the option to seek an extension from the Minister for Local Government to adopt the budget after 31st August 2017, if the timing of the decision and the ramifications of any successful action was to occur with sufficient timeliness to be reflected in the 2017-18 budget;
- If the 2017-18 budget is adopted, the rates issued then the action in the SAT was successful, the Shire has options under section 6.32(3) (a) of the Act to consider adopting a supplementary rate for the remainder of the financial year to compensate for any potential refund of rate revenue.
- If the action in the SAT is successful and the VGO issues amended valuations in the future, the rate records will need to be adjusted in accordance with section 6.39(1) and (2). Section 6.40(3) sets out the obligations on the Shire if the reassessment of rates results in a reduction/increase. If a reduction occurs, the Shire should consider seeking legal advice as to its responsibility to provide a refund on request or a credit on future rates. Obviously, providing a credit rather than a refund provides more flexibility to manage the cashflow impact of any large adjustment.

Actions the Shire can consider undertaking pending the outcome of the hearing in relation to the valuation under review is to consider the establishment of a cash reserve in the budget to specifically hold rate revenue received that equates to the difference between the current valuation in force and a reasonable estimate of the potential change in the valuation should the action be successful. Transfer from the cash reserve may occur if the action is successful and the ratepayer seeks a refund. If the action is not successful, the purpose of the reserve can be amended by the Council and the funds applied to the amended purpose.

In the 2016-17 budget, the Council resolved to issue a concession of $3.25m in relation assessment A51050 to ameliorate the effect of a significant increase in valuation for the ratepayer. The actions to consider creating a cash reserve to hold rate revenue that may be required to be refunded if the current valuation is amended or backdated, contrasts with the act to issue a concession based on a potential change in future valuations. The granting of a concession, once applied, cannot be reversed regardless of the outcome of a change in the valuation for assessment A51050.

The Shire has, in the past, consistently adopted a rating structure that triggers the need to seek Ministerial approval to achieve its intended UV rating outcomes. This approval is required when the span of the rates set in the UV category goes beyond that permitted in the Act. We are aware of other local governments that have opted to set the UV rates in accordance within the level set by the Act which does not trigger this approval requirement and then offer concessions to those groups of ratepayers that are adversely impacted by the increase in the rate in the dollar. We are also aware the Department may view this type of action as avoidance of the intent of the legislative provisions. It may be prudent to consider the Department's response prior to making such a change to the rating structure.

Comparison (Continued)

VARIATIONS IN UV RATING STRUCTURES (CONTINUED)

The average rate revenue derived by the Shire of Ashburton in 2016-17 for mining rates was $32,007 (includes the concession of $3,25m) which is the second highest average in the Comparison Group behind the City of Karratha. Influencing the average for Ashburton is a significant number of larger valuations resulting in multimillion dollar assessments. The top seven (7) assessments were estimate to contribute just over 50% of the rate yield in 2016-17. These seven assessment represent a significant risk to the sustainability of rate revenue in this rate classification, due to the extremely 'top heavy' nature of the distribution.

All local governments in the comparison group have a rate that can be identified as being applicable to mining and pastoral activity with several other rates applied to for individual circumstances.

The various UV rates in the dollar applied across the comparison group are as follows:

UV rate in the $	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Mining/Other/General	0.384670	0.136288	0.370000	0.172335	0.155200	0.115407	0.136600	0.190389
Pastoral/Rural	0.060154	0.098627	0.102877	0.057399	0.077600	0.062950	0.036000	0.060440
Other Rural			0.210000					
Plantations						0.007844		
Rural Residential	0.050961							
Strategic Industry		0.171072						
Tourism	0.162445							

The average UV rate levied per property across the comparison group is set out below.

Average UV Revenue	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Mining/Other/General	$ 32,007	$ 51,199	$ 3,762	$ 5,650	$ 2,904	$ 2,939	$ 2,877	$,460
Pastoral/Rural	$ 11,758	$ 25,577	$ 12,326	$ 6,155	$ 5,399	$ 5,397	$ 2,052	$7,261
Other Rural			$ 21,936					
Plantations						$ 3,149		
Rural Residential	$ 114,662							
Strategic Industry		Incl. in Mining						
Tourism	$ 14,011							

Please note, for comparison purposes, due to its component of resource processing, the rates levied under Strategic Industry for Karratha has been added to the mining rate revenue.

COMPARISONS BETWEEN LOCAL GOVERNMENTS

Comparisons between local governments property rating is a difficult exercise. We have made comparisons between rates in the dollar and average yields per property however these actions do not always provide the full compressive picture. The level of rate revenue required is determined by many variables including the service levels and quality of facilities provided as well as the differences between the level of external contributions to works and services.

It must be recognised, rates are not a user charge and not determined on the extent of access to, or use of, services and facilities. Property rates are a tax and the amount paid may not have relationship to the benefit received and often doesn't.

Within this context, the only way to establish the relative benefits of land ownership in one local government over another in relation to total rate revenue is to undertake a qualitative and quantitative assessment of services and facilities provided across the entire district. An exercise outside the scope of this review.

Rating Principles

Having set out the current rating structure and provided a comparison of the rating outcomes with neighbouring local governments, we now assess the current structure against the five identified rating principles in Departmental policy and identified earlier in the report.

OBJECTIVITY AND CONSITENCY

The Local Government Act S6.28 (2), requires all land predominately used for non-rural purposes to be valued on GRV. There are presently four properties used for tourism purposes rated on a UV basis. To add objectivity, if this land is predominately used for a non-rural purpose consideration should be given to seeking a GRV valuation for these properties. This recommendation was made as part of a previous review by UHY Haines Norton (2015) however the properties remained rated on a UV basis in the 2016-17 Budget.

The Shire of Ashburton created a new differential rate in the 2016-17 Budget. An extract of objects and reasons in relation to the differential rate, as published in the budget, follows:

This rate is applicable to properties that are zone Urban Development but fall outside a townsite.

Objects and Reasons -UV Residential Differential Rate: This land is zoned Urban Development and could not be considered Commercial or Industrial or Mining and therefore does not suit to that category so a new differential rate called UV Residential has been created.

The reason the UV Residential rate has been applied at a similar rate as GRV Residential on the basis the land is urban and destined for urban develop and exhibits all the characteristics GRV Residential land but exits in a UV area.

The following is an extract from The Department's operational guideline 'Changing Methods of Valuation of Land, Local Government Operational Guidelines - Number 02 May 2002', in which the Departments provides guidance as follows:

A residential subdivision is approved on the fringes of the metropolitan area on land valued on UV. The local planning scheme does not permit the land to be used for rural purposes. The local government could decide to change the method of valuation of the approved subdivision to GRV on the basis that the development has changed the predominant use to non-rural.

The objects and reasons in the 2016-17 budget seem to suggest that the Shire is constrained in that the land is in a 'UV area'. The Act does not identify areas as UV or GRV but permits application to change the valuation category based on the use of the land. In this case, it is open to consider the land is not used for rural purposes as it is zoned urban development. It is a matter of the objective application of predominate use rather than the need to create a new differential rate as it is outside the existing townsite. If application is made to change the valuation type to GRV from UV, the property would be rated as other GRV residential land.

The UHY Haines Norton (2015) rating strategy contained a recommendation that a new differential rate category be established in the future to rate Transient Workforce Accommodation (TWA) in accordance with Council policy Fin 16 "GRV Rating of Improvements on Mining Tenements and Petroleum Licence Sites Policy". These facilities are currently being rated as UV at the Mining Industrial rate in the dollar. This issue is still relevant for consideration to maintain objectivity and consistency in the rating structure. The process would involve GRV spot rating the portion of the property used for TWA activity and adherence with the current Departmental policy 'The application of Gross Rental Valuation to mining, petroleum and resource interests for local government rating purposes'

Rating Principles (Continued)

FAIRNESS AND EQUITY

A single rate in the valuation dollar applied across all valuation category properties results in an amount imposed based on an independent valuation of the land with valuation of the land used as a universal proxy for the capacity to pay. The application of a single uniform rate in the dollar results in the valuation determining the contribution made by each owner. In adopting a differential rate, the Council must consider a variation to uniform rating is necessary to achieve a more equitable outcome.

The first variation, is in the form of a minimum payment set at $740 for residential properties. $925 for commercial/industrial properties and $555 for properties located in the Wittenoom townsite to recognise the status of the townsite.

According to the Shire's 2016-17 Budget, 'Applying a minimum payment seeks to ensure all ratepayers contribute to basic services and facilities and Council has determined two levels of General minimums and one Lesser minimum.'

Applicable to 6% of total residential properties with a GRV valuation the minimum payment is well within the maximum number permitted by the Act and below the indicative calculation contained in the UHY Haines Norton (2015) review. As such, it is not considered to be set at a level that would suggest it is having a negative influence on overall fairness and equity.

The minimum for commercial/industrial properties was set at 25% above the residential general minimum to recognise (according the 2016-17 budget) the additional costs associated with servicing this type of property. The minimum was applied to just under 25% of total commercial/industrial properties with a GRV valuation and is also well within the maximum number permitted by the Act (50%) and slightly above the indicative calculation in the UHY Haines Norton (2015) review. As such, it does not appear to have a negative influence on overall fairness and equity.

The second variation is the application of a differential rate to properties used for commercial/industrial/tourism being set at a level 0.2% above that used for residential/community purposes. According, to the 2016-17 budget;

This rate is applicable to properties that have a predominant land use of commercial or industrial, including Hotels, Shops, Restaurants and Offices and land is used for providing a tourism service, including Roadhouses, Tourist Centres, Caravan Parks, Workers Accommodation, and Holiday Accommodation.

Objects and Reasons -GRV Commercial/Industrial Differential Rate: The reason a higher rate has been applied to the GRV Commercial/Industrial category land is to reflect the additional financial impact these activities have on Shire infrastructure and services.

The objective is to raise additional revenue to contribute toward higher costs associated including, but not limited to, rubbish collection in relevant areas, higher town planning control costs, health inspections and administration costs, added complexity in building control, higher traffic volumes and vehicle mass due to commercial and industrial activity, parking facilities, traffic management, pedestrian access, commercial and industrial signage, visitor servicing and street furniture.

It is common for a higher differential rate to be applied to commercial/industrial property for similar reasons within the region and across the State. The difference in the rate is very minimal to the point that there is hardly any difference.

Rating Principles (Continued)

FAIRNESS AND EQUITY (CONTINUED)

The Council issued a concession to all properties in the GRV Residential/Community category to ameliorate the effects of a significant change in valuations from those applied in the 2014/15 year. The amount of the concession was estimated to be $272,147 in the 2016-17 Budget. The purpose of the concession was to compensate for a change in values provided by the VGO which primarily resulted in Onslow GRV increasing while other locations remaining static or reducing.

The basis of rating under the Act is that the valuation should principally determine the level of rates contributed. Applying a concession to replicate a previous valuation outcome fundamentally challenges this principle. It is essentially manipulating the values in the face of changing economic circumstances and is not a sustainable practice. To achieve this outcome, the rate in the dollar for GRV Residential/Community was adjusted downward to a point where it has become very similar to the rate in the dollar for GRV Commercial/Industrial properties.

The UV properties are divided into two main differential rate categories; Mining/Industrial and Pastoral. The other differential rates in the UV category reflect attributes that make them more relevant to seeking a GRV valuation.

UV Mining properties are characterised by several subsets of activity being:

- Exploration Licence
- Prospecting Licence
- Petroleum Production Licence
- Petroleum Exploration Permit
- Retention Licence
- Mineral Lease
- Mining Lease
- General Purpose Lease

We are aware the Department (under delegated authority from the Minister) has previously written to the Shire in 2015 and expressed a desire for the Shire to consider establishing separate differential rate categories for the various activities within the current UV Mining/Industrial category.

Through our work in this area, we are aware of several local governments around the State that apply a different (usually lower) rate to Exploration and Prospecting Licences as distinct from Mining/Production activity. The goal being to encourage exploration and prospecting activity and recognise that production activity has the higher detrimental impact on road infrastructure. If considered desirable, it is open to the Council to consider separating mining properties into these two broad categories and applying a differential rate based on land use to achieve this policy outcome.

EFFICIENCY AND TRANSPARENCY

A single uniform cents in the valuation dollar is the simplest and most administratively efficient and transparent way to administer the rating process. Applying a differential rate requires a higher administrative undertaking to maintain land use categories however, in this circumstance the delineation of property types is reasonably clear.

Transparency is maintained by publishing the basis for applying the differential rate categories and the minimum payment.

Overall, subject to the matters raised above, we consider the existing GRV rating structures exhibit characteristics that align to the five established property rating principles.

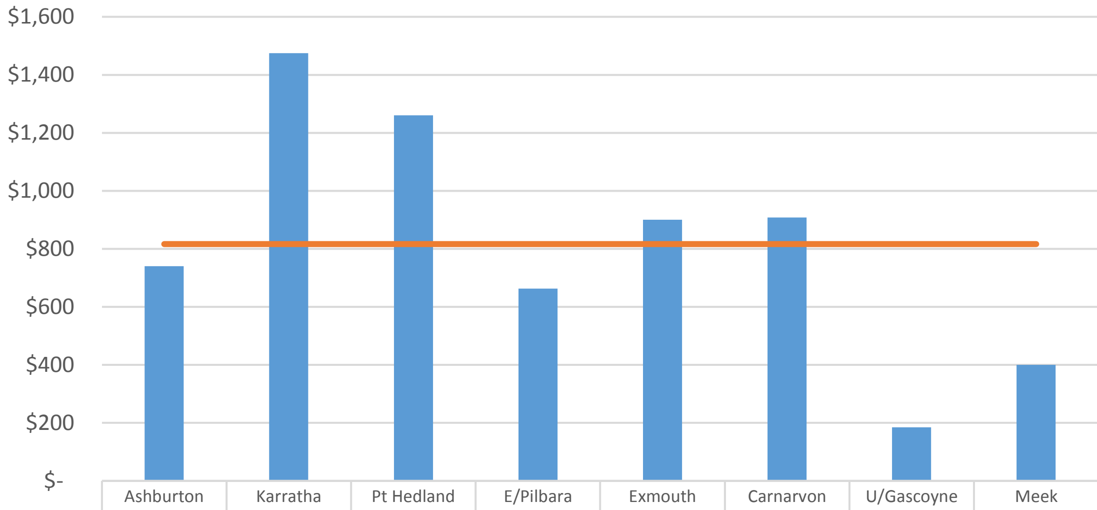
Minimum Payments

The 2016-17 Budget applied a minimum payment per property of $740 to Residential/Community properties, which applies to just under 6% of the number of rateable properties in that category. 17 properties in Wittenoom were granted a lesser minimum of $555 (25% less than $740) in recognition of a reduced service level in the town.

All other properties attracted a higher minimum rate level $ 925.

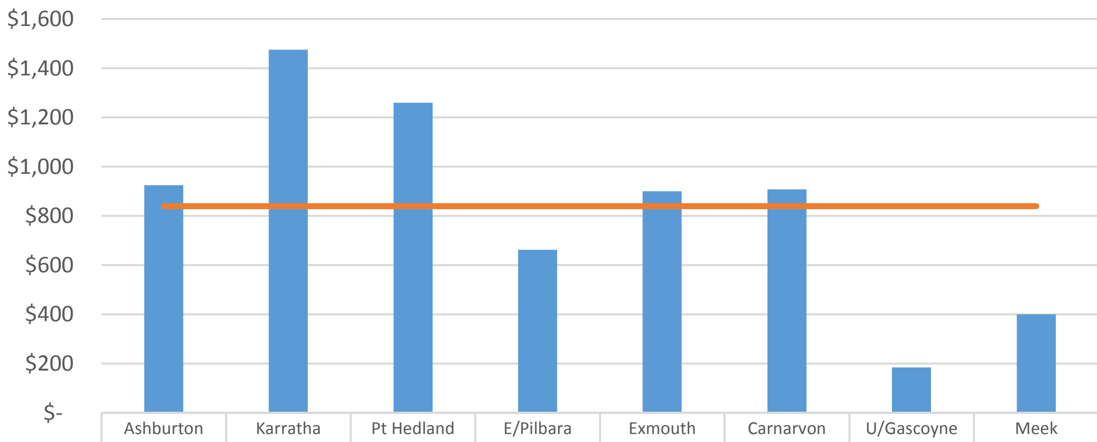
In the following comparison, a general minimum was selected for each local government in the Comparison Group although some local governments have multiple minimum payment levels for each differential rate.

MINIMUM PAYMENT LEVELS - RESIDENTIAL 2016-17 BUDGET.



	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Residential	$740	$1,475	$1,260	$663	$900	$908	$185	$400
Average Minimum GRV	$816	$816	$816	$816	$816	$816	$816	$816

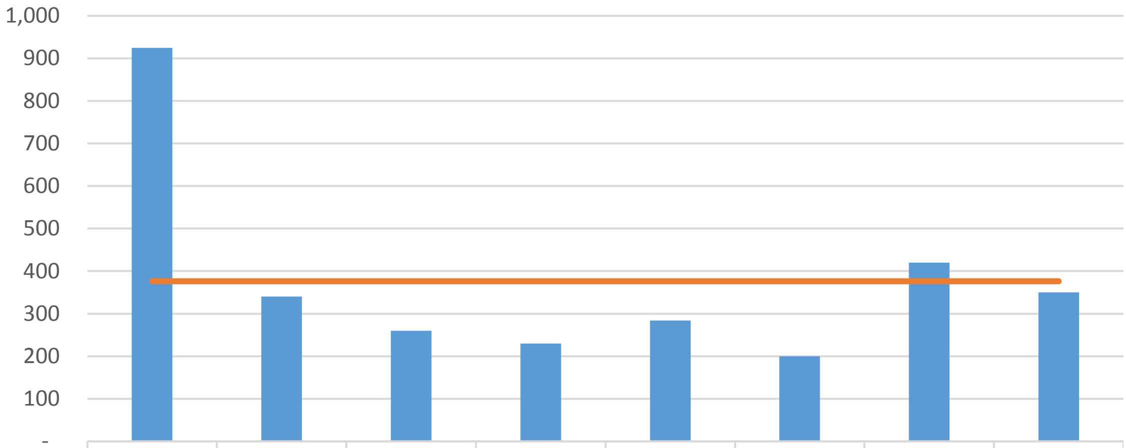
MINIMUM PAYMENT LEVELS - COMMERCIAL/INDUSTRIAL 2016-17 BUDGET.



	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Commercial/Industrial	$925	$1,475	$1,260	$663	$900	$908	$185	$400
Average Min. Comm/Ind	$840	$840	$840	$840	$840	$840	$840	$840

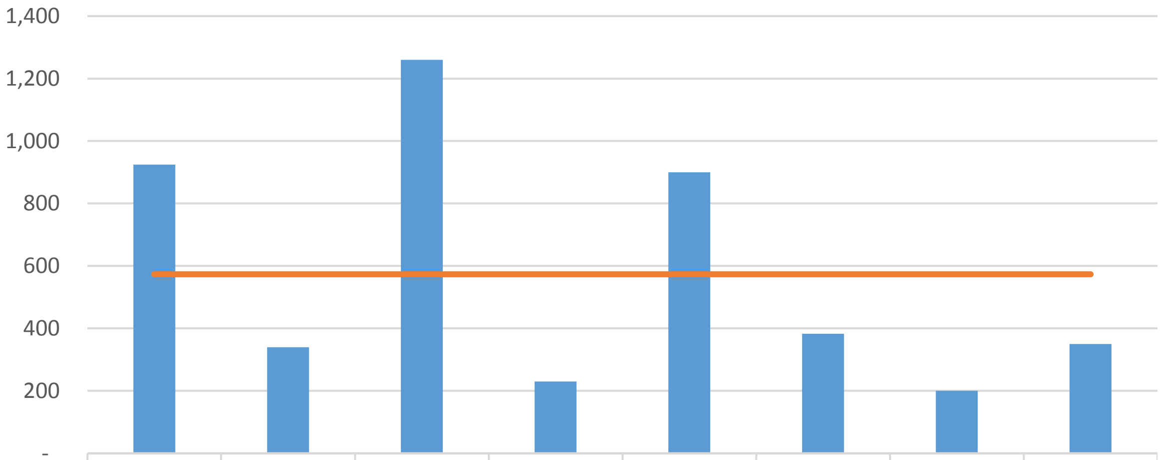
Minimum Payments (Continued)

MINIMUM PAYMENT LEVELS – MINING/INDUSTRIAL 2016-17 BUDGET.



	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Mining	925	340	260	230	284	200	420	350
Average Mining	376	376	376	376	376	376	376	376

MINIMUM PAYMENT LEVELS – PASTORAL 2016-17 BUDGET.



	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Pastoral	925	340	1,260	230	900	383	200	350
Average Pastoral	574	574	574	574	574	574	574	574

Minimum Payments (Continued)

We conducted analysis to identify what may be considered an equitable amount to contribute regardless of the property value. This involved analysis of the 2016-17 Budget to extract the net cost of services classified as being of fundamental benefit to all regardless of individual circumstances.

Included are general-purpose funds from the Federal Government and the net cost of those services that are of benefit to all ratepayers such as community health and safety, transport and planning. These services exhibit the general characteristics of a 'public good' in that they are non-exclusive and consumption does little to diminish their value. The result of the analysis is set out in the following table:

Program	Net Exp. $
Other General Purpose Income	4,436,266
Law Order and Public Safety	(819,359)
Health	(445,798)
Community Amenities	(48,708)
Economic Services	(48,750)
Transport	(8,501,561)
TOTAL	**(5,427,910)**
Total Properties 2016-17 Budget	3,897
Minimum contribution per property	$1,393

For all ratepayers to make a minimum contribution to this net cost in a fair and equitable way, regardless of the valuation of their property, involves applying the above net cost across the total number of rateable properties in the district. The result of this calculation for the 2016-17 Budget was $1,393 per property. This contrasts with the calculation in the UYH Haines Norton (2015) report of $831 per property. The increase can be attributed to a significant growth in depreciation of road assets which is presumed to have occurred following revaluation of the road system.

A positive rating strategy adds certainty and predictability to the rate setting process. Although it may be attractive to seek a formula for setting minimum payment levels in a similar way to our analysis this may not always result in consistent rating outcomes. The net cost of services may change from year to year for valid purposes leading to inconsistency. For this reason, we do not recommend a ridged formula driven process but rather the level of minimum payment be compared on a regular basis as part of the budgetary process using a similar calculation.

It is not suggested consideration be given to an increase in the minimum payments levels consistent with the above calculation based on the 2016-17 Budget. This is due to the influence of the sharp increase in depreciation on roads on the calculation. If such an increase was under consideration then we suggest, as a precursor to any decision, a review of the reasonableness of road depreciation be undertaken.

Rating Strategy

Prepared as a separate document, a Property Rating Strategy has been developed to guide the Council on rating principles and structure as it exercises its discretionary rating powers provided under the Act. The strategy sets out the five rating principles published by the Department and applies these principles in the context at the Shire of Ashburton. A summary of the comparisons as outlined in this review is included along with the rating structure for 2017-18 and future structural changes.

In addition to the Property Rating Strategy, an example Notice of Intention to Levy Differential Rates as required by Section 6.36 of the Act and Supporting Statement of Rating Information has been developed in accordance with the scope of the engagement.

Other Matters

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MOORE STEPHENS

Level 15 Exchange Tower
2 The Esplanade
PERTH WA 6000

Phone +61 (0)8 9225 5355
Email pbreman@moorestephens.com.au
ABN 99 433 544 961

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MOORE STEPHENS

Property Rating Strategy

Shire of Ashburton

May 2017

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Contents

1.0 Background

The power to raise local government property rates is set out under the Local Government Act 1995 (the Act). The Council, using a defined process outlined within the Act, determines the level of rates annually.

In adopting its annual budget the Council must consider its current Plan for the Future (comprised of the Strategic Community Plan and Corporate Business Plan) under section 5.56 of the Act.

Within this basic context and subject to the provisions of the Act, the Council is free to use its rating powers to raise rate revenue at the level it determines appropriate.

Determining the appropriate level for rate revenue requires the Council to assess the current and future service needs and aspiration of the community and its capacity and willingness to contribute to those services.

There are two property valuation methods available under the Act, Gross Rental Value (GRV) and Unimproved Value (UV).

GRV is '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 is liable for all rates, taxes and other charges thereon and the insurance and other outgoings necessary to maintain the value of the land'[1].

UV land is 'valued as if it has had no improvements (as though) it remains in its original, natural state, any land degradation is taken into account'

As a default position, a local government sets a single general rate in the dollar for each valuation type (GRV and UV). This is referred to as a uniform general rate in the valuation dollar and applied to all properties within a valuation type regardless of their location, zoning or land use.

As an alternative rating structure to adopting uniform general rate, a local government may apply different rates in the dollar within each valuation type. A differential rate may only be applied using the following characteristics, or combination thereof:

- The zoning of the land;
- The predominant use (as determined by the local government);
- If the land is vacant or not; and
- Any characteristics prescribed (currently relevant only to amalgamations and boundary changes).

A local government may impose a general minimum payment on each valuation type (and also within each differential rate category). This is intended to result in all properties paying at least a minimum contribution in rates regardless of the property valuation. A lesser minimum can also be imposed on a portion of the district subject to certain requirements.

[1] Land Gate, Rating and Taxing Valuations Publication, April 2008

2.0 Objective and document structure

This property rating strategy seeks to guide the Council on rating principles and methodology as the Council exercises its discretionary rating powers to determine the level and structure of rates levied under the Act.

The document:

- Outlines five rating principles derived from The Department of Local Government and Communities (Department) policy guideline[2].
- Applies the five rating principles to the Shire of Ashburton with a particular emphasis on geography and relative legislative restrictions.
- Compares the rating outcomes of surrounding local governments, to add context to the Shire of Ashburton's current rating structure; and
- Sets out the current and future rating structure.

Strategic Vision

The community vision, aspirations and values are represented in the Council's current Strategic Community Plan. The content of this strategy seeks to be consistent with this vision.

Vision:

We will embrace our unique Pilbara environment and lifestyle through the development of vibrant, connected and active communities that have access to quality services, exceptional amenities and economic vitality.

[2] 'Changing Methods of Valuation of Land, Local Government Operational Guidelines - Number 02 May 2002'

3.0 Rating principles

In developing, maintaining and applying its rating policy and structures the Council will consider the following five (5) rating principles (not necessarily listed in priority order).

Objectivity	The predominant use of the land will be regularly reviewed and (as far as practical) will be used to determine the basis of valuation (GRV/UV) using an objective assessment of relevant criteria. External parties will be able to understand how and why a determination was made.
Fairness and Equity	Rating principles will be applied fairly and equitably. Each property will make a fair contribution to rates based on a method of valuation that appropriately reflects the predominant use of the land and the capacity to pay.
Consistency	Rating principles will be applied, and determinations made, in a consistent manner.
Transparency	Systems and procedures for determining the method of valuation of land and the calculation of the rates payable will be clearly documented, understandable and available for public inspection.
Administrative Efficiency	Rating principles and procedures will be applied and implemented in an efficient and cost-effective manner.

The principles of objectivity and consistency are linked, in that the Council will be objective in its application of the rating principles and classification of the land and ensure the predominate use of the land results in the application of the relevant valuation type and the classification of properties will be consistently applied to ensure integrity is maintained.

Fairness and equity, in property rating, would in theory result in each ratepayer being taxed fairly in relation to all other ratepayers. Practically, fairness is achieved when ratepayers with similar wealth pay an equal or similar rate contribution and wealthier ratepayers pay more due to their increased capacity.

In determining the rate contribution of each ratepayer a local government faces some restrictions. The Act determines the level of rate contributions is linked to the ratepayer's property value. By using the value of property as a proxy for capacity to pay the legislation seeks to establish an equitable and fair distribution of the rate burden.

As a measure of a ratepayers capacity to pay, the value of property is not always most representative. In recognition of this imperfect relationship, the Council has the power to grant, at its discretion, annual rate concessions and waivers.

Property ownership can span over many life stages and stretch well into retirement. Escalating property values over time can distort the relationship between a ratepayer's income and their property wealth. For this reason, pensioners have a claim under the Rates and Charges (Rebates and Deferments) Act 1992 for a rebate or the option to defer rates.

4.0 Application of the principles of rating at the Shire of Ashburton

Geographic Context

The Shire of Ashburton covers an area over 105,647 square kilometres located in the Pilbara region of Western Australia, with a population of approximately 10,000 (2014). A feature of the Shire is the number of disbursed population centres from Onslow in the west to Pannawonica, Paraburdoo and Tom Price in the east of the Shire. Tom Price, located 1577 kilometres from Perth, is the administrative centre of Shire operations and has the largest population.

The Shire is currently undergoing unprecedented growth in the resource sector with two of the world's largest LNG plants being constructed on the western coast, while inland continued expansion of existing projects will likely result in increased production. The Shire is also home to numerous large cattle stations and fishing and tourism sectors.

The geography of the Shire presents a number of challenges in developing a suitable rating structure. Legislation permitting the application of a differential rate requires it to be applied using any, or a combination of, the following characteristics:

- The zoning of the land under the local planning scheme;
- The land use as determined by the local government; or
- If the land is vacant or not.

The location of the property is not a characteristic permitted by the legislation to be used in the determination of a differential rate. This presents some challenges when properties used for the same purpose or with the same zoning are located (in some cases) close to service centres while others are located in isolated areas with limited access to services. Regardless of the location and access to services, the same rate in the dollar must be applied to each property within each differential rate category. The Shire of Ashburton's geography generates a number of these circumstances and can lead to concerns over the equity of the rating system with the Shire having little capacity to respond to these anomalies other than the application of a concession on a case by case basis.

General Principles

The Shire seeks to apply its discretionary rating powers in compliance with the legislation, while seeking to maximise rate revenue within its adopted rating framework. In accordance with the Act, the Shire is required to use property values as a proxy for capacity to pay. The Shire acknowledges there is not a perfect correlation between a ratepayer's capacity to pay and their property value and will consider the use of its discretionary powers to approve concessions and waivers where appropriate to reduce any identified anomalies. The Shire also acknowledges, while there is a high level of community demand for services, there is a limit to the capacity of ratepayers to contribute to those services.

The Shire recognises an obligation to return a degree of benefit to ratepayers for their rate contributions however, this benefit will not be in direct proportion to the level of their contributions. Rate revenue is applied as a property tax to be used for the benefit of the district as a whole and is not considered to a fee for service.

Application of the principles of rating at the Shire of Ashburton (continued)

Application of the Objectivity Principle

Where the predominant use of the land is for rural purposes the Shire will seek to have the land valued on a UV basis. Where the predominant use of the land is for non-rural purposes the Shire will seek to have the land valued on a GRV basis.

Application of the Equity and Fairness Principle

The Shire generally considers the application of a uniform general rate, resulting in a ratepayer's contribution being determined by the value of their property, as the simplest rating structure unless a more equitable or appropriate outcome is achieved by the adoption of differential rates.

The Council will determine the level of rate revenue required on an annual basis and seek sufficient revenue to provide for the good governance of the district and the provision of current and future services as determined necessary and after considering its 'Plan for the Future' supported by the Asset Management Plan, Workforce Plan and Long Term Financial Plan.

The Shire will establish and maintain a minimum payment structure to ensure all ratepayers contribute a minimum amount to services regardless of their property valuation. The Council will seek a level of minimum payment by reference to the provision of non-exclusive services provided for the benefit of the whole district.

Application of the Consistency Principle

The Council will make decisions in relation to the level of rates to promote consistency and predictability.

Application of the Administrative Transparency and Efficiency Principle

The Council will endeavour to establish and maintain a rating system that:

- Promotes simplicity, transparency and understanding;
- Is efficient in collection and reduces the incidences of avoidance;
- Reduces complexity; and
- Is open to scrutiny.

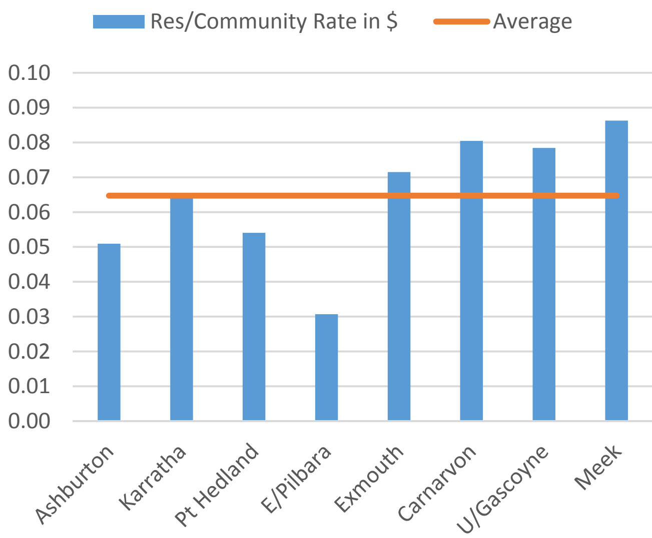
5.0 Comparison of rating levels

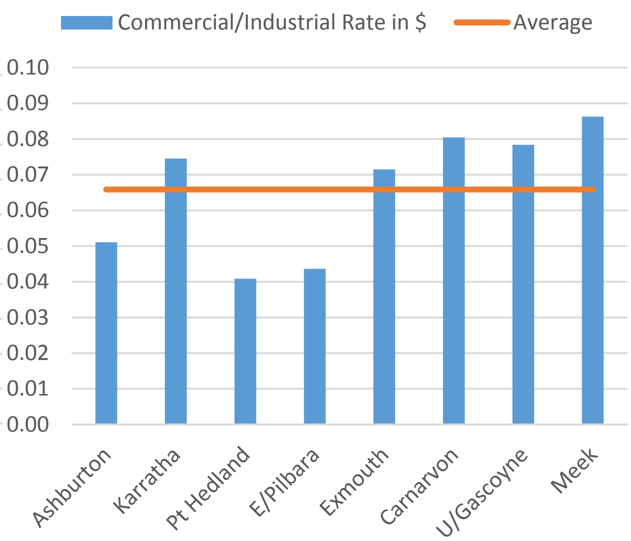
A rating comparison review was undertaken in 2017, with the source data for the review being the 2016-17 Budget comprising local governments sharing a common boundary with the Shire of Ashburton. A summary of this review is presented below:

Gross Rental Value Properties - Comparison

The GRV rate in the dollar and estimated average GRV rates payable per property (separated into the various property classifications) for 2016-17 year is set out below:

GRV rate in the $	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek.
General/Residential/Other	0.050961	0.065211	0.054074	0.030723	0.071500	0.080437	0.078400	0.086281
Transient Workforce Accom.		0.321484	0.260000	0.043653				
Comm./Ind./Centre	0.051060	0.074517	0.040875	0.043653				
Industrial/Mixed Business		0.057244	0.027529	0.015438				
Tourist/Holiday Accommodation			0.114339		0.101100			
Strategic Industry/Airport		0.128666						
Nullagine Town				0.043500				
Vacant					0.120500			
Marina					0.098300			





GRV Average Rate Yield	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek.
General/Residential/Other	$ 1,688	$ 2,318	$ 2,582	$ 1,248	$ 1,779	$ 1,971	$ 435	$ 1,161
Transient Workforce Accom.		$ 294,144	$ 603,408	$ 80,259				
Comm./Ind./Centre	$ 7,197	$ 10,748	$ 7,678	$ 6,943				
Industrial/Mixed Business		$ 8,832	$ 4,678	$ 2,219				
Tourist/Holiday Accommodation			$ 84,154		$2,203			
Strategic Industry/Airport		$ 78,349						
Nullagine Townsite				$ 620				
Vacant					$ 1,526			
Marina					$ 3,596			

Comparison of rating levels (continued)

The estimated average rates levied on residential/community properties by the Shire of Ashburton in the 2016-17 Budget was $1,688. This average occurs close to the middle of the distribution of all residential/community rating outcomes suggesting it is broadly representative of most instances. The average residential rates payable outcome in the comparison group was slightly lower at $1,648 per property. Residential/community rates contributed 80% of the total rates revenue from GRV properties, which was similar to the average contributions to GRV revenue by residential properties across the comparison group.

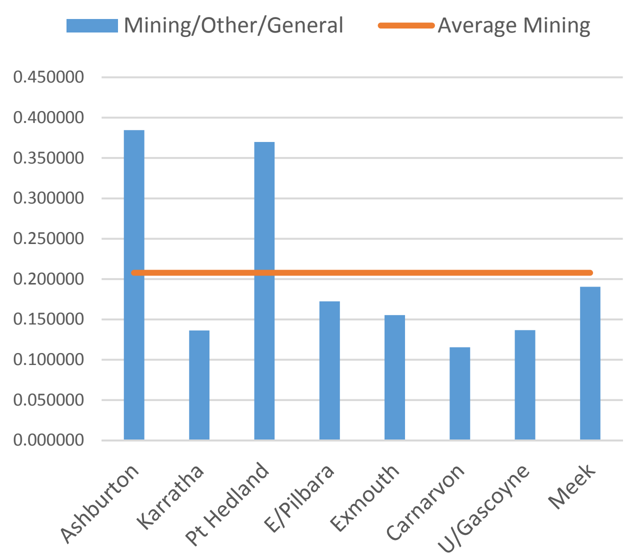
The rate in the dollar for residential/community properties was less than most of the comparison group, with five (5) of the seven (7) adopting a higher rate in the dollar. In the comparison group, all but Exmouth and Carnarvon were valued at a similar effective date as Ashburton, being 2014.

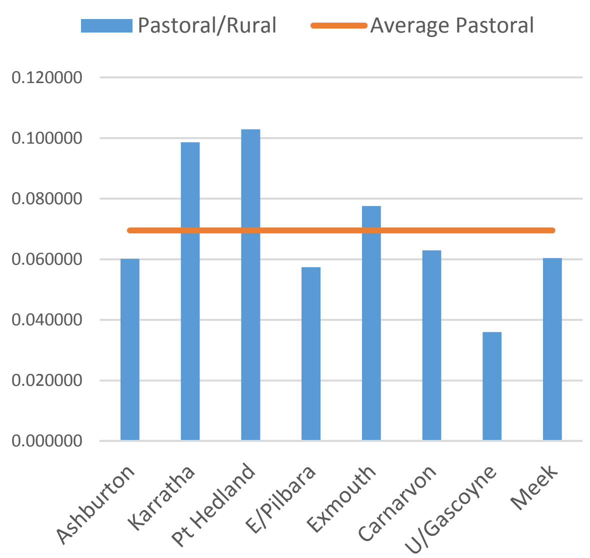
The average rates payable for GRV Commercial/Industrial properties in the 2016-17 budget was $7,197 which was less than the average across the comparison group of $8,141. For Ashburton, the rate in the dollar was 5.1060 which was lower than the group average of 6.5840 with five (5) of the seven (7) local governments adopting a higher rate in the dollar.

Unimproved Value Properties - Comparison

The UV rate in the dollar and average UV rates payable per property (separated into various property classifications) for 2016-17 are set out below:

UV rate in the $	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek.
Mining/Other/General	0.384670	0.136288	0.370000	0.172335	0.155200	0.115407	0.136600	0.190389
Other Rural			0.210000					
Pastoral/Rural	0.060154	0.098627	0.102877	0.057399	0.077600	0.062950	0.036000	0.060440
Plantations						0.007844		
Rural Residential	0.050961							
Strategic Industry		0.171072						
Tourism	0.162445							





Comparison of rating levels (continued)

Average UV Rate Yield	Ashburton	Karratha	Pt Hedland	E/Pilbara	Exmouth	Carnarvon	U/Gascoyne	Meek
Mining/Other/General	$ 32,007	$ 51,199	$ 3,762	$ 5,650	$ 2,904	$ 2,939	$ 2,877	$,460
Other Rural			$ 21,936					
Pastoral/Rural	$ 11,758	$ 25,577	$ 12,326	$ 6,155	$ 5,399	$ 5,397	$ 2,052	$7,261
Plantations						$ 3,149		
Rural Residential	$ 114,662							
Strategic Industry		Incl. in Mining						
Tourism	$ 14,011							

UV Commercial/Industrial properties are characterised by a small number of high value properties contributing the majority of the rate revenue. The rate in the dollar of 38.247 cents was the highest amongst the comparison group, with an average of 20.7611 cents.

Ashburton Mining/Industrial properties are rated at an average of $32,007 per property compared with the comparison average of $13,225. This average was skewed high due to the influence of a small number of very large rateable properties.

Pastoral properties in the Shire of Ashburton were rated an average of $11,758 per property in the 2016-17 budget, which was more than the comparison group average of $9,491. The rate in the dollar of 6.0154 cents is less than the group average at 6.9506 cents. Four (4) of the seven (7) local governments in the group applied a higher rate than Ashburton however the average was influenced by some high rates applied by Karratha and Port Hedland. The median of rate paid was $6,852 which shows most of the ratepayers in this group pay less than the average of $11,758.

The UV Tourism rate only applied to four tourism operations with an unimproved valuation. The rate in the dollar applied to these properties is 16.2445 cents in the dollar. There is limited opportunity for comparison with other local governments as no other local government applied a differential rate to UV tourism properties.

6.0 Future rating structure and outcomes

The Shire of Ashburton's Long Term Financial Plan contains the level of rate revenue required to implement the Shire's 'Plan for the Future' and provide for ongoing services and facilities. To achieve these strategic outcomes will require the maintenance of rate revenue at levels commensurate with those contained in the 2016-17 budget.

Following consideration of the 2017 rating review, the Shire has selected its rating structure to the following:

GROSS RENTAL VALUED PROPERTIES			
LAND USE	***EXISTING STRUCTURE***	***FUTURE STRUCTURE***	***COMMENTS***
Residential Community	Residential/Community	Residential/Community	Unchanged, however the current concessions are to be discontinued at the next revaluation date.
Commercial Industrial Tourism	Commercial/Industrial	Commercial/Industrial	Unchanged except for the intent to incorporate those properties (or part thereof) with a predominate use being Tourism currently differentially rated under the UV General category.
New		Transient Workforce Accommodation	Subject to a review of the impact of the application of GRV valuations from the current UV valuations, establish a differential rate category for Transient Workforce Accommodation.

GRV Residential/Community

A differential rate with a separate rate in the dollar for gross rental valued residential and community properties, provides the Shire the opportunity to achieve rating outcomes that accord with its strategic objective to encourage residential development and ensure the rating outcomes for community properties reflects the important contribution these properties make to the community and lifestyle. Current global concessions applied to category are to be discontinued at the next revaluation event in recognition that compensating for the intrinsic economic factors influencing land values cannot be maintained indefinitely.

GRV Commercial/Industrial

A differential rate with a separate rate in the dollar for gross rental commercial and industrial properties permits the Shire to achieve rating outcomes that reflects the additional costs associated with supporting commercial and industrial properties.

It is intended for properties with a land use of Tourism are included in this differential rate. There are a small number of properties with a land use of Tourism that are currently valued on an unimproved basis. Based on the principle of objectivity, if these properties are used predominately for a non-rural purpose they would more appropriately be rated under the GRV Commercial/Industrial differential rate. This change will require engagement and consultation with the affected property owners and quantification of the financial impact of the change.

GRV Transient Workforce Accommodation

A new differential category will be considered in the future to establish a separate rate in the dollar for gross rental properties with a land use of Transient Workforce Accommodation and other selected capital improvements (Mining Tenements and Petroleum Licence Sites) such as recreation and administration facilities, associated buildings and maintenance workshops and in accordance with the Shire of Ashburton Policy FIN16.

Future rating structure and outcomes (continued)

UNIMPROVED VALUE PROPERTIES			
LAND USE	***EXISTING STRUCTURE***	***PROPOSED STRUCUTURE***	***COMMENTS***
Mining Industrial	Mining/Industrial	Unchanged	Generally unchanged, with the intent for properties with Transient Workforce Accommodation to be valued using GRV in the future.
New		General	Amalgamation of Pastoral, Tourism and Residential differential rate categories.
Pastoral	Pastoral	Amalgamated into UV General category	Rated as UV General.
Tourism	Tourism	Amalgamated into UV General category	The intent in the future is the relevant properties will be valued as GRV and rated under as GRV Commercial/Industrial.
Residential	Residential	Amalgamated into UV General category	Rated as UV General.

UV Mining/Industrial

It is intended to retain the current structure of a differential rate in the dollar for unimproved valued properties with a land use of Mining/Industrial properties to provide the Shire with the structure to achieve a rating outcome that adequately reflects the costs associated with supporting rural based mining and industrial properties.

During the 2017-18 financial year, the Shire intends to undertake analysis and consider the potential for changing the method of valuation for the portion of the property used for transient workforce accommodation. These properties are currently rated using an unimproved valuation within the UV Mining/Industrial category.

UV General (New)

A new unimproved differential rate category is created to consolidate the existing categories of UV Pastoral, UV Tourism and UV Residential and any other future land use categories with an unimproved valuation but not included in the UV Mining/Industrial category. The rationale in creating this new category is to align with the general rating principles outlined in this strategy, comply with legislation and simplify the rating structure by reducing the number of differential rates applying to the UV category.

Pastoral

Land used for pastoral purposes will be included under the new UV General category in the 2017-18 budget.

If the level of the new UV General rate is set at a level that raises concerns in relation to the principles of fairness and equity or capacity to pay for pastoral ratepayers, the Shire will consider, on application, offering a concession to those ratepayers.

Future rating structure and outcomes (continued)

Tourism

Land used for tourism purposes with an unimproved valuation will be included in the new UV General category in the 2017-18 budget.

During the 2017-18 financial year, the Shire intends to undertake analysis and consider the potential to change the valuation method from UV to GRV for the portion of the property used for Tourism purposes.

UV Residential

Land with an unimproved value that is zoned urban development but falls outside a townsite will be included in the new UV General category in the 2017-18 budget.

During the 2017-18 financial year, the Shire intends to undertake analysis and consider the potential to change the valuation method from UV to GRV for this category of property.

Changes in the Method of Valuation

Changing the valuation method applicable to a parcel of land requires application to the Minister for Local Government, Sport and Cultural Industries (The Minister). If the application is successful, a technical description of the relevant land and a notice of the change in valuation must occur in the Western Australia Government Gazette.

The Department of Local Government, Sport and Cultural Industries administers the process for the Minister and publishes guidance which provides information on the process involved in making an application.

Where land is jointly used for rural and non-rural purposes there are two methods which are available to apply different valuation methods to portions of the land as follows:

- A split valuation may be applied to a portion of a lot or location. The process involves a local government (at its cost) identifying the area of land in alternate use and making application to the Minister for a split valuation; or
- Where the alternative use of the land occurs entirely on a separate lot or location (not just a portion), a local government may make application to the Minister for a change in valuation method and, if successful, achieve a spot valuation from the Valuer General.

A change in the valuation method can result in a considerable change in the level of rates levied against a property. For this reason, the Shire will undertake consultation with the property owner(s) prior to any application to the Minister.

Future rating structure and outcomes (continued)

Minimum Rates Payment Levels

MINIMUM PAYMENTS				
VALUATION TYPE	***CATEGORY***	***2016-17 $***	***2017-18 $***	***COMMENTS***
GRV	Residential/Community General Minimum	740	830	Reviewed annually
GRV	Residential/Community Lesser Minimum	555	622.50	
UV	General Minimum	925	1,037	

The Shire reviews and sets the level of minimum payments annually to an amount that reflects the net cost of 'basic' services and facilities.

MOORE STEPHENS
Level 15, 2 The Esplanade,
Perth WA 6000
T +61 (0)8 9225 5355
F +61 (0)8 9225 6181
perth@moorestephens.com.au