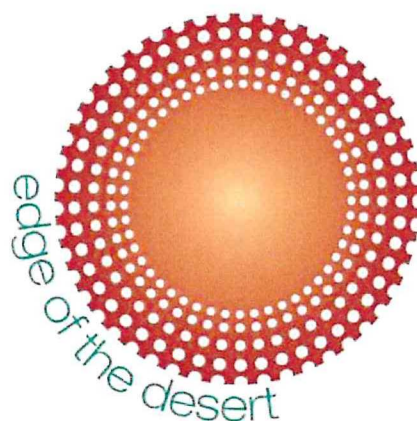


Shire of Wiluna

MINUTES



Special Meeting of Council

Held

Wednesday 14 August 2019

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APPENDICES

Appendix 4.1.1.A Submissions on Differential Rating

Appendix 4.1.1.B Statement of Objectives & Reasons for Differential Rating

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AGENDA

1. Declaration of Opening and Announcement of Visitors

2. Public Question Time

There were no members of the public present at the meeting.

3. Record of Attendance

Present:

Cr Jim Quadrio, President (in the Chair)

Cr Norma Ward

Cr Peter Grundy

Cr Lena Long

Apologies:

Cr Stacey Petterson

Cr Graham Harris

In Attendance:

Colin Bastow

Chief Executive Officer

Warren Olsen

Deputy Chief Executive Officer

Katherine Crawford

Senior Finance Officer (for item 4.1.1)

a) Leave of Absence Previously Approved

Nil.

b) Notations of Interest:

i. Financial Interest Local Government Act Section 5.60A

Nil.

ii. Proximity Interest Local Government Act Section 5.60B

Nil.

iii. Interest Affecting Impartiality Shire of Wiluna Code of Conduct

Nil.

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4. Reports of Officers

4.1. Deputy Chief Executive Officer

4.1.1. 2019/20 Annual Budget

Reporting Officer:	Warren Olsen – Deputy CEO
Date of Report:	7 July 2019
Date of Meeting:	14 August 2019
Disclosure of Interest:	Nil

Purpose

The purpose of this report is to present the draft 2019/20 Shire of Wiluna Budget to the elected members of the Shire for their consideration and Council adoption.

Background

It is a requirement of the Local Government Act that the Shire Annual Budget, be adopted by the 31 August of each year, unless Ministerial approval is obtained for an extension to this date.

In accordance with the requirements of s.6.2 of the Local Government Act, a detailed estimate for the current financial year of the following has been prepared and included as part of the 2019/20 draft Budget documents (attached):

- particulars of the estimated expenditure proposed to be incurred by the Shire.
- the revenue and income, independent of the general rates to be raised by the Shire.

In preparing the annual budget for the 2019/20 financial year, the Shire has considered both the present and future needs of the community. A process of extensive consultation with the elected members of the Shire and the community was undertaken to identify the needs of the community. The attached Annual Budget documents have been prepared taking into account the other forward planning documents of the Shire of Wiluna, strategic objectives of the Shire and decisions made by the Council during the previous twelve months.

To provide equity in the rating of properties across the Shire, a Differential Rating system has been used for the imposition of rates. As required by s.6.36 of the Local Government Act, a notice of the intention to Levy Differential Rates for 2019/20 financial year was advertised on 10 May 2019 in the *West Australian*. A copy of the notice was also placed on the Shire of Wiluna noticeboard and the Shire website and published in the *Wiluna Wire*.

The proposed rates published were as follows:

<u>Rate Category</u>	
Non-minimum	Rate (c)/\$
GRV Wiluna Townsite	10.2268
GRV Mining	20.2213
UV Rural/Pastoral	13.7841
UV Mining	21.4345
UV Exploration & Prospecting	21.4345

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Minimum	Minimum Rates
GRV Wiluna Townsite	490
GRV Mining	370
UV Rural/Pastoral	370
UV Mining	370
UV Exploration & Prospecting	370

In setting the rates, the Council may vary the rates from those published in the differential rates notice after giving consideration to the submissions received, and to any other information.

Submissions received in relation to Differential Rating

Only two submissions were received. They were from:

- The Chamber of Minerals and Energy of Western Australia (CME).
- McMahon Mining Title Services Pty Ltd.

The complete submissions are reproduced as Appendix 4.1.1.A of this agenda.

There were no submissions received in relation to GRV Townsite rates or UV Rural rates. The only submissions were received from the mining sector.

Comments

Of course, everyone would prefer to have lower costs rather than higher costs and to pay lower taxes (including lower rates) rather than higher taxes. I'm sure that if the other spheres of government would carry a fair burden of responsibilities and stop cost-shifting to the local government sector, it would be the preference of most Councils to impose lower rates.

Unfortunately, that is not the environment in which we operate, and the Council's legislated responsibility is to balance its budget as fairly as it can achieve, having regard to the costs imposed on it.

However conscientiously and impartially the Council attempts to do this, it will not be possible to please everyone. But it is Council's responsibility to be as fair as possible to all ratepayers – not just to oil the squeakiest wheel.

This year's submissions are comparatively well-researched compared with some of the submissions received in recent years. Each will be considered below:

Chamber of Minerals and Energy of Western Australia (CME)

- In its submission, CME points out that WALGA compiles a Local Government Cost Index (LGCI) which it considers to be more representative of movements in the Shire's costs than the CPI. In fact, we are aware of the LGCI and its characteristics and limitations.

The main problem with the LGCI is that it attempts to measure local government costs as if local governments were homogenous in their cost structures, which is very far from the case. In this sense it is quite flawed because (unlike "consumers"

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whose costs are supposed to be reflected in the CPI) local governments are too small a sample and too diverse in their circumstances to have their costs reflected in an index-based approach.

For example, a local government such as the Shire of Wiluna may have no choice but to run an airport at a huge ratepayer subsidy to users, because this community has no other form of public transport (or means of providing medical services). There is no train or bus service that services Wiluna, and the local medical service (like the mines) relies on a “fly-in fly-out” workforce. By comparison:

- Many local governments (particularly the metropolitan local governments which, because of their size and large budgets/expenditures, dominate the Local Government Cost Index) don't have to spend a cent on providing an airport because their local airports are operated by another entity. Their communities also enjoy much superior access to both transport alternatives and medical services.
- Some regional local governments which do operate airports (eg. the City of Greater Geraldton) are able to generate a surplus from airport operations. According to its Annual Report the City of Greater Geraldton generated an operating income of approximately \$5.3M in 2017-18 and it plans and manages its airport “to provide a satisfactory return on investment to the ratepayers of the City”.

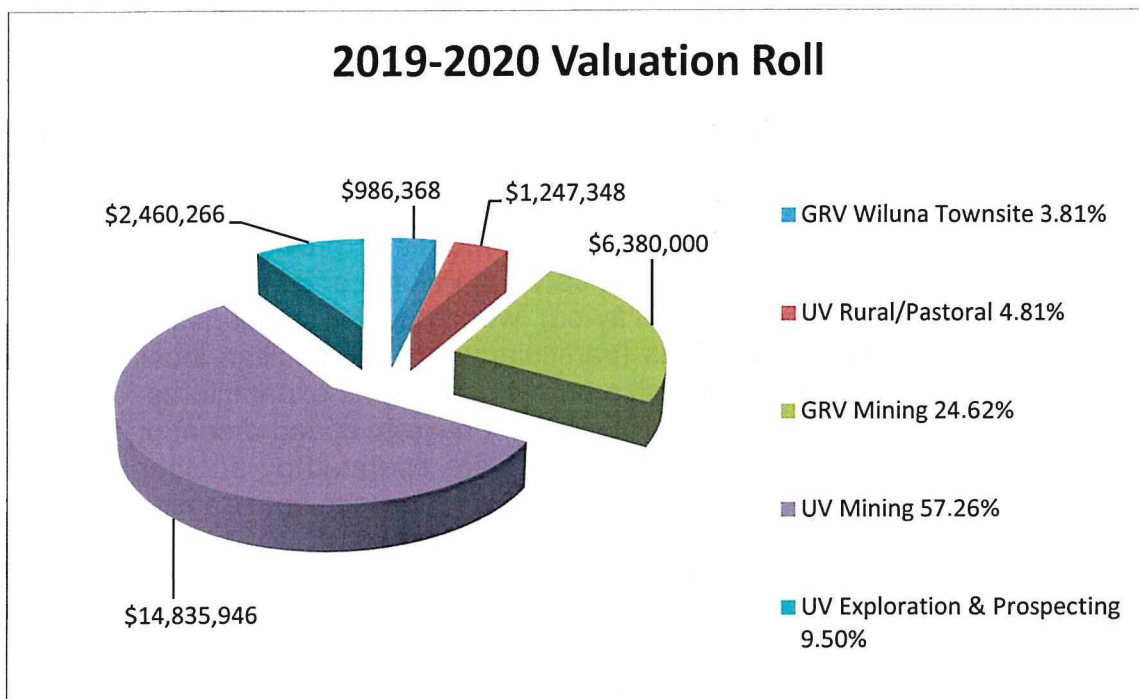
So across the LGCI, the cost of running an airport is fairly insignificant because most local governments don't do it at all, but for the Shire of Wiluna the cost of operating the airport is around 10% of rate revenue most years rising up to 17% on occasions (due to exceptional costs imposed by users, for which the Shire has no means of recovery (except rates)).

The way that the Council is required to set the overall level of rates is prescribed by subsection 6.2 (2) of the Local Government Act 1995 and subregulation 22 (1) (d) of the Local Government (Financial Management) Regulations 1996. They require that the income and expenditure of the local government are determined, and then the general rates must be fixed to meet the difference between the income and expenditure. In this way, the level of rates is directly related to the Shire's actual costs.

- The CME submission points out that the resources sector alone has contributed more than 90 per cent of the Shire's rate revenue in the eight years since 2011. That is really to be expected, because the resources sector holds more than 90% of the rateable value of the Shire as shown for the chart below:

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It would be a wonderful thing to have a more diverse rating roll so that the Shire wasn't dependent on such a cyclical industry for its revenue. The dependency on the resources sector exposes the Shire to significant risks that are partly understood by CME.

But as things currently stand, the Shire can only do as it does in accordance with the legislation. It can only impose rates in accordance with its valuation roll, and it does so well within the parameters of the Act and without the need of a Ministerial exemption that a lot of other local governments have to obtain because their differential rating schemes do not adhere as strictly to the legislated parameters as the Shire of Wiluna's differential rating scheme does.

- The CME submission points out that the Shire increased its landing fees for large aircraft and increased its passenger fees for charters. The CME submission apparently supports the Shire's attempt to provide greater equity by trying to recover the operating and damage costs from aerodrome users so as to reduce the need to subsidise these costs from rate revenue.

That was certainly the Shire's good intention, but the outcome has been the opposite because:

- The operator of the large aircraft that caused the damage (and had added significantly to the Shire's costs to other ratepayers) decided to use a more distant aerodrome to avoid contributing to the costs of the damage they had caused; and
- In any case, after taking engineering advice, the Shire had to close the aerodrome to such large aircraft because of the damage they would continue to cause.

Consequently, there has been a decrease of about 75% in airport revenue, leaving a bigger deficit to be funded by the ratepayers. This decision was not taken lightly.

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Subsequently, a study funded by the state government through the Department of Transport found that (although it is regrettable to lose 75% of the aerodrome's revenue) this was the best decision because the lost revenue was less than the cost of repairing the damage that would continue to be caused by the larger aircraft.

We are aware that a substantial upgrade (way beyond the resources currently available to the Shire) of the runway needs to be undertaken to restore the aerodrome to a level of serviceability that will meet the needs of the community for public transport (RPT flights), Royal Flying Doctor services, and existing and future local industries (including mining).

We are already in discussion with state and federal agencies about these needs, but it is apparent that the Shire will need to raise substantial funding from its ratepayers, particularly those sectors who have made the most demands on the aerodrome without shouldering a fair share of costs as aerodrome users.

- The CME submission says that the Shire should consider alternative sources of funding, specifically:
 - Increasing direct fees and charges to cover costs;
 - Increasing general rates and minimum payment for use of the Shire's established assets and services; and also
 - Seeking funding from other tiers of government for specific funding needs.

Of course, that is exactly what the Shire does in accordance with the requirements of subsection 6.2 (2) of the Local Government Act 1995 and subregulation 22 (1) (d) of the Local Government (Financial Management) Regulations 1996. It is clearly the intention and the requirement of the legislation that it is only the shortfall after all other sources of revenue have been taken into account that can be made up from rates.

It is probably easier to write philosophical submissions about these matters than it is to achieve the desired outcomes:

- For example, the Shire tried very hard over many years, without success, to get aerodrome users to make a fair contribution to the costs of operating the facility. There was even a user that kept using the aerodrome but refused to pay the charges, and then used its superior resources to engage the Shire in litigation (which ultimately had to be paid for by the long-suffering ratepayers). Although the Parliament has given local governments the power to impose fair user charges, it hasn't given them the wherewithal to defend those powers through the courts in the face of litigation by well-resourced counterparties.
- The Shire does increase general rates and minimum charges in line with other rate increases. Because it is fair and equitable to do so. But it would not be able to increase other rates sufficiently to make up for more than 90% of its valuation roll without breaching the rating parameters set down in the legislation.
- The Shire explores and makes good use of state and federal funding opportunities wherever it can (and where it is prudent to do so). But the Shire also needs to put in its share as there are no 100% funding opportunities (and

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most grants are for capital projects only and do not cover operational expenditure).

McMahon Mining Title Services Pty Ltd

The second submission received is from McMahon Mining Title Services, whose past submissions have sometimes influenced the Council's decision in regard to rating differentials.

The submission from McMahon Mining Title Services Pty Ltd makes some very good points about proposed increases in mining rents (and the effect on mining valuations and therefore on rate yields).

From time-to-time the State increases the rents on certain mining tenements (or pastoral leases) and because the valuations are based on a statutory formula (a multiple of the rent) these increases in rent result in an increase in the valuations.

The submission argues that because of the increase in valuations, the Shire should not increase mining rates as intended. It is remarkable that it is often considered acceptable for the State to increase mining rents to balance its budget or to fund special projects, but it is often expected that under-resourced outback local governments should reduce their rates so that the impact on mining companies of the State's actions will be minimised.

There was even an occasion a few years ago when the State increased mining rents to balance its budget and the Minister wrote to local governments asking them to reduce their rates so as to reduce the impact on mining companies of the State's rent increase! (A classic case of "Do as I say, not as I do").

Given the problems now facing the Shire as a consequence of the consumption of its assets by the mining sector, the Shire needs to build up its reserves (particularly its Airport Reserve) in order to be able to replace its assets when required, even if replacement is required during a mining downturn.

Nevertheless, some modelling has been done based on the state's proposed rent increases as described in the submission from McMahon Mining Title Services Pty Ltd. This modelling has identified that, although the State may generally be increasing rents by 1.5% for exploration licences and 6% for other mining tenements as stated in the McMahon submission, that is not borne out by our valuation roll. Consequently, across the board rate relief for the mining sector would overcompensate for the actual increases on our valuation roll and result in revenue. That is because the value of some mining tenements has decreased, and we can only rate according to the valuation roll that we actually have.

We believe that the decrease in the value of some mining tenements may be due to state government policy to support and nurture the growth of a potash industry by slashing rents by 75% for potash miners. As Councillors will be aware, the Shire of Wiluna is a bit of a potash mining hot-spot, so the rise in values on our valuation roll as a whole has been less than might have been inferred from the McMahon submission.

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Now those that always argue that local governments should reduce their rates every time the state government increases rents might be expected to argue as a corollary that if the state government decreases rents then local government rates should increase. Both arguments are equally foolish (though the latter is not as self-serving as the former).

It is not the role of local government in either case to try to counteract state government policy.

Our legislation requires that local governments strike their rates for one purpose only – that is to balance the budget. The rates recommended for adoption achieve that aim while taking into account (in a way consistent with actual changes in our valuation roll) some of the points made in the McMahon submission in that the UV mining rates and the UV exploration and prospecting rates are both recommended to be set at a rate in the dollar which is a little less than the rates proposed in the public notice published in the *West Australian* on 10 May 2019.

Comments in relation to proposed Rates

Extensive modelling (particularly with reference to testing the valuation roll in relation to the submission by McMahon) has indicated that the levels of service and asset creation/renewal provided for in the 2019/2020 Annual Budget can be achieved by adopting the following rates:

Rate Category	
Non-minimum	Rate (c)/\$
GRV Wiluna Townsite	10.2268
GRV Mining	20.2213
UV Rural/Pastoral	13.7841
UV Mining	21.2284
UV Exploration & Prospecting	21.2284
Minimum	Minimum Rates
	\$
GRV Wiluna Townsite	490
GRV Mining	370
UV Rural/Pastoral	370
UV Mining	370
UV Exploration & Prospecting	370

These proposed rates are as advertised except for the UV Mining and UV Exploration and Prospecting non-minimum rates, which are recommended to be set a little lower than advertised (which was at 21.4345 cents per dollar).

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In addition, because the pastoral industry within the Shire of Wiluna is being devastated by one of the most severe droughts ever experienced within the District, it is recommended that a one-off concession of 10% be granted on non-minimum UV Rural/Pastoral rates pursuant to section 6.47 of the Local Government Act 1995. As this concession is proposed to be a one-off "drought concession", it is not expected to have a compounding effect.

Consultation

Chief Executive Officer – Colin Bastow

Senior Finance Officer – Katherine Crawford

Recreation and Leisure Coordinator – Tamihana Cummings

Financial Implications

The presented 2019/20 draft budget is a balanced budget.

- The proposed 2019/20 draft budget includes capital expenditure of \$11,251,399 funded by \$2,221,594 from grants and contributions, \$2,853,173 from reserve funds, \$800,000 from loan funds, \$336,000 from sale of assets and the balance of \$5,040,632 from the Shire's own funds.
- For the day to day activities and maintenance work undertaken by the Shire, \$8,587,357 has been allocated to meet the Shire's operating expenses (including loan repayments)
- The total budgeted income in this proposed draft budget is \$7,715,670. This includes income expected to be raised from rates of \$5,323,577.

The adoption of the 2019/20 Draft Budget will allow the Shire to collect rates and other fees and charges as well as expend funds on approved services and capital projects.

A copy of the 2019/20 draft budget and the related schedules are separately circulated with this agenda.

Policy Implications

Nil

Strategic Implications

A number of capital projects have been included in the Shire's Annual Budget to improve the existing infrastructure and create more opportunities for the local community.

Chief among these is the Wotton Street Revitalisation (Streetscaping) Project, in respect of which a provision of \$2,337,000 should enable this project to be completed this financial year (in accordance with strategy 4.1.1 of the *Shire of Wiluna Strategic Community Plan 2018-2028* and the timetable for action 4.1.1.1 set out in the *Shire of Wiluna Corporate Business Plan 2019-2023*).

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Generally in accordance with the *Shire of Wiluna Corporate Business Plan 2019-2023*, the proposed 2019/20 Annual Budget also makes substantial provisions for the following:

- Road renewals and upgrades and associated works (\$1,736,945)
- Land and Buildings (\$2,338,000)
- Parks and Gardens (\$1,475,000)
- Airport & Runway Renewal (\$1,094,454)
- Plant Replacement (\$972,000)
- Caravan Park (\$100,000)

Statutory Environment

This Budget document has been prepared in accordance with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996, Australian Accounting Standards and Shire of Wiluna's Policies.

In preparing the budget, consideration has been given to the *Wiluna Community Strategic Plan 2018-2028* that was endorsed by the Council at its meeting held on 23 May 2018, as well as to the *Shire of Wiluna Corporate Business Plan 2019-2023* that was adopted by the Council in July 2019.

Comments in relation to proposed Fees and Charges

The schedule of fees and charges has been reviewed and:

- Statutory Fees and Charges (ie. Fees and charges over which the Council has no discretion as they are determined by legislation) have been updated.
- Shire Fees and Charges (ie. Fees and charges over which the Council has discretion) are mostly proposed to remain the same or to increase only modestly.

Proposed new fees and charges are as follows:

- Internet Usage at Staff Housing (page 95)

This is proposed to be charged to staff (except those who enjoy Shire-provided internet as part of their employment contract) for provision of internet services to their staff dwellings. Councillors will recall that one of the reasons that the Shire has invested in the technology to provide internet services to staff dwellings was because Telstra was unwilling to provide the required infrastructure (except at exorbitant cost), and people in the 21st century require internet access or else they will not come to Wiluna.

The proposed charge is set at a level considered to be comparable to what an Internet Service Provider would charge for a similar level of Service.

A legal opinion [document 13428] has been obtained that it is lawful for the Shire to supply internet access to its employees, and to impose a charge.

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- Standpipe Charges (page 91)
The charges relate to the provision of water to members of the public (both tourists and commercial users).
There is considerable demand for water, but the water here in Wiluna is too expensive to provide without charge.
The proposed charges have been set at levels considered to be realistic to cover the actual costs in providing the service.
- Hire of rooms at SPQ (page 78)
Given the shortage of accommodation options in Wiluna, there is a need to set a charge for the hire of the former motel rooms in circumstances where a supplier is willing to pay for accommodation but where the only other accommodation options will be inappropriate.
The Shire has previously had a charge of \$200 per day for a house, but it is proposed that lower charges be adopted for the hire of SPQ rooms because they are not self-contained and offer a lower level of amenity.

As is usual, new and adjusted fees and charges will be implemented as soon as the budget is adopted.

Matters to be considered when setting fees and charges

Section 6.16 of the Local Government Act 1995 provides that a local government may impose and recover a fee or charge for any goods or service that it provides, including the use of (or allowing admission to) any property or facility wholly or partly owned, controlled, managed or maintained by the local government.

Voting Requirements Absolute Majority

The Deputy CEO corrected a typo in his recommendation 7 – the due date for the second instalment should be Wednesday 27th November 2019 – not 27th September as stated in the report on the meeting agenda.

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Councillors asked what had changed in the budget to be adopted from the previous draft budget that had been circulated. The Senior Finance Officer, CEO and Deputy CEO gave oral explanations as required.

Officer Recommendation and Council Decision
Item 4.1.1
MOVED CR GRUNDY
SECONDED CR LONG

That, with respect to the Shire of Wiluna 2019/20 Annual Budget, the following recommendations be adopted:

1. That the submissions received on the Shire's proposed differential rating (as set out in Appendix 4.1A) be received and noted.
2. That, having considered the submissions made in respect of proposed differential rating, the following Differential General Rate Categories along with the rate in the dollar and minimum amounts as per the below table be imposed by the Shire of Wiluna for the 2019/20 financial year:

Differential General Rate/General Rate Category	Rate in \$ (cents/\$ of valuation)	Minimum Rate (\$)
Gross Rental Value (GRV) Wiluna Townsite	10.2268	490
GRV Mining	20.2213	370
Unimproved Value (UV) Rural/Pastoral	13.7841	370
UV Mining	21.2284	370
UV Exploration & Prospecting	21.2284	370

3. That, pursuant to section 6.47 of the Local Government Act 1995, a concession of 10% be granted in relation to UV Rural/Pastoral rates in consideration of the extreme drought conditions currently afflicting the pastoral industry with the Shire of Wiluna.
4. That the statement of objectives and reasons for levying differential rates attached as Appendix 4.1.1.B be approved.
5. Rates Paid by Instalments & Overdue Rates
In accordance with the Local Government Act 1995, where ratepayers choose to pay their rates by instalments the Shire is required to adopt a rate of interest to be charged for this option and to determine an administrative charge for this service. Similarly, the Shire is required to adopt the rate of penalty interest to be imposed on outstanding rates.
6. Interest on money owing to local governments

That, in accordance with section 6.13(1) & (6) of the Local Government Act 1995, an interest rate of 11% per annum be imposed on all debts (other than rates and service charges) that remain outstanding longer than 35 days after the due date.

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7. Rates due dates

- (a) That, in accordance with section 6.50 of the Local Government Act 1995 and Regulation 64(2) of the Local Government (Financial Management) Regulations 1996, the following dates be set as the dates upon which rates and service charges become due and payable:

Option 1 - Payment in full by a single instalment

Due date: Friday, 27 September 2019

Option 2 - Payment in full by four instalments

Due dates: 1 st Instalment	Friday, 27 September 2019
2 nd Instalment	Wednesday, 27 November 2019
3 rd Instalment	Tuesday, 28 January 2020
4 th Instalment	Monday, 30 March 2020

- (b) That, in accordance with Regulation 66 of the Local Government (Financial Management) Regulations 1996, if an instalment (other than the first instalment) remains unpaid after the day on which the next instalment becomes due and payable, the ratepayer's right to pay by instalments be revoked.

8. Schedule of Fees and Charges

That the Schedule of Fees and Charges in the draft 2019/2020 Annual Budget be adopted.

9. Monthly Reporting of Variances

In accordance with the regulation 34 of the Local Government (Financial Management) Regulations 1996, each financial year a local government is required to adopt either a percentage or a dollar value, which is to be used in the statements of financial activity as a basis for reporting material variances.

- a. That the rate/amount of 10% or \$10,000 (whichever the highest) be adopted as the material variance level which would require an explanation or a report.

10. Local Government Annual Allowances

The Local Government Act 1995 and Administration Regulations provides for a Local Government Allowance that is payable to the President and Deputy President.

- a. That the President's Local Government allowance - \$20,063 per annum and the Deputy President's Local Government Allowance - \$5,015.75 per annum be adopted.

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11. Annual Allowance – Information Technology and Communications Expenses

- a. That the President's annual information technology and communications allowance - \$2,500 per annum and the annual information technology and communications allowance for all other Councillors - \$2,000 per annum be adopted.

12. Annual Allowance in lieu of meeting attendance fees

- a. That the President's annual allowance in lieu of meeting attendance fees - \$19,534 per annum and for all the other Councillors - \$9,504 per annum be adopted.

13. Local Government - Travel Expenses

- a. That all Councillors who use their own motor vehicle for travel to council meetings or on other authorised council business be paid a motor vehicle expense allowance on a per-kilometre basis, at the rate set out and the conditions set forth in the Local Government Officers' (WA) Interim Award 2011.

14. That the draft Shire of Wiluna Annual Budget for the financial year ending 30 June 2020 be adopted as presented.**CARRIED 4/0 by Absolute Majority****Resolution 99/19****5. Confidential Items*****Council decision*****MOVED CR WARD****SECONDED CR QUADRIO**

That the meeting be closed to the public, pursuant to S5.23 (2) subparagraphs (c), (d) and (e) (iii) to consider Confidential Item 5.1. which contains information about a contract entered into; legal advice obtained; and information about the business, professional, commercial or financial affairs of a person.

CARRIED 4/0**Resolution 100/19****DISCLAIMER READING**

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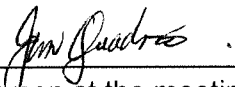
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5.1. Wotton Street Revitalisation Project Optional Works**Council decision****MOVED CR GRUNDY****SECONDED CR WARD****That:**

1. It be noted that the Wotton Street Revitalisation Project works between Thompson Street and Wall Street will be provided by Environmental Industries Pty Ltd in accordance with the WALGA Preferred Supplier Program; and
2. The CEO be instructed to extend the scope of works under the contract with Environmental Industries Pty Ltd to include the Optional Items for the sum of \$620,283.16 plus GST.

CARRIED 4/0**Resolution 101/19****Council decision****MOVED CR WARD****SECONDED CR LONG****That the meeting be re-opened to the public.****CARRIED 4/0****Resolution 102/19****6. Closure***There being no further business, the Shire President closed the meeting at 3.27pm*

These minutes were confirmed at the Ordinary Meeting of Council on the 25 September 2019

Signed 
(Presiding Person at the meeting of which the minutes were confirmed.)

Date: 25/9/19

DISCLAIMER READING

Resolutions are not considered final until the minutes of the meeting are confirmed.

Members of the public should also note that they act at their own risk if they act upon any resolution prior to receiving official written notification of Council's decision.

31 May 2019

Mr Colin Bastow
Chief Executive Officer
Shire of Wiluna
PO Box 38
Wiluna WA 6646

via email: ceo@wiluna.wa.gov.au

Dear Mr Bastow

RE: SHIRE OF WILUNA – NOTICE OF INTENTION TO LEVY DIFFERENTIAL RATES 2019-20

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia. CME is funded by member companies, including those who are ratepayers in the Shire of Wiluna (the Shire). These members have brought to CME's attention the Shire's notice of intention to levy differential rates for the 2019-20 financial year.

Contributing to a third of the State's total industry Gross Value Added,¹ the resources sector is a major contributor to both the State and Australian economy. The value of royalties received from the sector in 2018-19 totalled \$6.2 billion, accounting for 20 per cent of State Government revenue.^{2 3} The sector, however, operates in a highly trade exposed economy, sensitive to swings in global commodity markets, geopolitical trade tensions and intense price competition from low cost producing economies. In this context of economic volatility, producers and users of commodities are increasingly focusing on achieving cost efficiencies. Coupled with a high marginal effective tax rate on corporate income,^{4 5 6} the sector is susceptible to changes in costs. Increases in local government rates are no exception.

The remainder of this Letter of Objection addresses issues local governments should consider in their annual budget setting process, as per the Circular N° 02-2017 and guidance prepared by the Department of Local Government and Communities.⁷

Consideration of indexes

As previously highlighted by the Shire, local governments are not required under legislation to consider the Consumer Price Index (CPI) in the process for setting rates. CME acknowledges components of the CPI may not be relevant for the Shire's expenditure; this however does not preclude the Shire's consideration of the WA Local Government Association's (WALGA) Local Government Cost Index (LGCI).

The LGCI considers those components of expenditure identified by the Shire as significant, i.e. construction of general, road, bridge infrastructure and mining machinery.

¹ Duncan, A., Kiely, D. and Salazar, S., *Quarterly economic commentary: March 2019*, Bankwest Curtin Economics Centre, Curtin University, April 2019, p. 4.

² Excludes contributions via North West Shelf grants, State taxes and levies.

³ Government of Western Australia, *2019-20 Economic and fiscal outlook*, budget paper no. 3, May 2019, p. 68.

⁴ Organisation for Economic Co-operation and Development, *Corporate tax statistics database*, December 2018.

⁵ Bazel, P. and Mintz, J., *Corporate tax reform: Australia watches the train go by*, policy paper, Minerals Council of Australia, March 2019.

⁶ Committee for Economic Development of Australia, *Australia improves one place ranking 18: Federal election clears the way for renewed focus*, media release, May 2019.

⁷ Department of Local Government and Communities, *Local government budget process: Timeline and considerations factsheet*, E1648967, January 2017, p. 1.

The proposed increases across the mining rating categories however are well in excess of both CPI and LGCI (Table 1). Indexing rate increases proportionally to the LGCI would provide appropriate certainty to different classes of ratepayers.

Consideration of alternative sources of funding

In setting rates, the Shire should collectively consider the interaction of:

- a) Increasing direct fees and charges to recover costs;
- b) Increasing general rates and minimum payment for use of the Shire's established assets and services; and also
- c) Seeking funding from other tiers of government for specific funding needs.

For example, CME notes the Shire has received recent funding from both the Federal and State Governments for the Regional Airports Development Scheme, Remote Airstrip Upgrade Programme, Black Spot Project, Roads to Recovery Programme, State Road Funds to Local Government Agreement and untied local road Financial Assistance Grants.

Regarding rate setting to recover costs of aerodrome operation and maintenance, CME understands the Shire has also established the following fees and charges with the intent of reducing cross subsidisation from general rates:

- New landing fees for aircrafts with a maximum take-off weight over 20 tonne, which will be a fourfold increase over fees set for aircraft below 20 tonne; and
- New passenger charges for charters, which will be 28 per cent more than charges set for regular public transport.

From an economic efficiency principle, CME supports charging for infrastructure and services on a consumption basis that is commensurably equitable, consistent and transparent. This will provide an appropriate price signal to influence ratepayer behaviour, thereby preventing corrections for market failure.

Consideration of certainty

Since 2011, differential rates have imposed an unreasonable and inequitable tax incidence and burden on the resources sector. In addition, rate increases have been unpredictable and inconsistent across rating categories (Table 2).

Without clear and concise reasons given to policy neutrality, distributional equity, stability and sustainability, it is neither efficient nor effective for both ratepayers and the Shire in long term financial planning. In the absence of such certainty, there is an argument for rate caps and pegs to be considered, as apply in other states in Australia.

Development of objects and reasons

CME does not support the following statements made within the Shire's objectives and reasons for differential rating of exploration, prospecting and mining categories:

"Mining removes finite resources from the Shire. Ultimately this will have an impact on the mining industry within the Shire, which will in turn impact rate revenue in future years."

All minerals, gold, silver and precious metals on or below the surface of any land, except in the case of land alienated before 1 January 1899, are the property of the Crown (section 9).⁸ The resources are vested in the State who applies a royalty rate as compensation to the people of the State. The Shire therefore cannot legally claim compensation for removal of finite resources (section 123) and the imposition of differential rates based on this reasoning is invalid.

It also fails the key values of objectivity and consistency as land cannot be rated according to an undeterminable finite resource, which in itself has no measurable zone or land use characteristics.

⁸ Mining Act 1978 (WA).

CME also does not support the following statement:

“to ensure a sector of ratepayers that essentially are transitory contributes...in general mining operators use established Shire services and infrastructure but contribute very little or no enterprise to the community.”

The resources sector alone has contributed 90 per cent – more than \$23 million – in general rate revenue to the Shire in the eight years from 2011 (Table 1). It would appear the Shire has not considered intertemporal equity, i.e. the substantial cumulative contribution the resources sector makes to the region throughout a mine’s operating life.

Regardless of the sector’s transitory nature, such contributions are material to the Shire’s financial performance and reporting (over and above other ratepayer categories), warranting sound and prudent budget and rate setting processes.

CME strongly encourages the Shire to consider the comments made in this Letter of Objection and make amendments appropriate to the level of differential rates to be adopted for the 2019-20 Annual Budget.

For further information regarding this Letter of Objection, please contact Caroline Cherry, Manager Economic Competitiveness on 0448 057 036 or via email at C.Cherry@cmewa.com.

Yours sincerely



Robert Carruthers
Director
Policy & Advocacy

cc:

The Hon. David Templeman MLA, Minister for Local Government; Heritage; Culture and the Arts

The Hon. Bill Johnston MLA, Minister for Mines and Petroleum; Energy; Industrial Relations

The Hon. Ben Wyatt MLA, Treasurer; Minister for Finance; Aboriginal Affairs; Lands

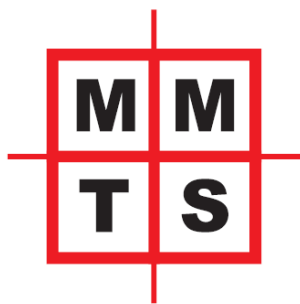
Table 1 – An analysis of relative increases in differential general rates levied on the resources sector.

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
UV – Mining revenue (\$)	N/A	-3.4%	N/A	N/A	3.5%	8.1%	26.2%	15.2%	TBA
UV – Exploration & Prospecting revenue (\$)	N/A	N/A	N/A	N/A	12.3%	14.5%	2.6%	10.2%	TBA
UV – Rural / Pastoral revenue (\$)	N/A	3.2%	N/A	N/A	2.7%	8.3%	9.1%	5.8%	TBA
GRV – Mining revenue (\$)	N/A	11.3%	N/A	N/A	2.8%	2.1%	6.2%	6.0%	TBA
UV – Mining rate (c/\$)	N/A	3.1%	N/A	N/A	2.8%	5.6%	13.8%	10.7%	7.1%
UV – Exploration & Prospecting rate (c/\$)	N/A	N/A	N/A	N/A	36.0%	5.7%	3.7%	5.6%	-16.4%
UV – Rural / Pastoral rate (c/\$)	N/A	2.9%	N/A	N/A	36.3%	8.3%	5.9%	6.2%	3.8%
GRV – Mining rate (c/\$)	N/A	11.3%	N/A	N/A	19.5%	9.1%	6.5%	5.7%	3.8%
CPI – Perth	2.2%	2.3%	3.0%	1.8%	1.0%	0.6%	0.9%	1.2%	1.7%
LGCI – WALGA	~3.5%	~2.0%	~1.5%	~1.0%	1.4%	1.0%	1.9%	1.8%	2.2%
General rates revenue – Exploration, Prospecting & Mining (\$)	2,677,193	2,728,216	N/A	3,003,267	3,132,194	3,347,134	3,903,065	4,370,353	TBA
General rates revenue – Total (\$)	2,987,384	3,048,349	3,152,438	3,324,172	3,486,575	3,710,948	4,246,103	4,731,751	TBA
Contribution from the resources sector towards the Shire's general rates revenue	89.6%	89.5%	N/A	90.3%	89.8%	90.2%	91.9%	92.4%	TBA

Please note fields marked N/A were due to public unavailability of statutory budgets.

Table 2 – An analysis of increases in differential general rates payable levied on one ratepayer.

Rate category	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
UV – Mining	3.2%	3.1%	5.0%	2.9%	6.0%	15.9%	6.0%	13.7%
UV – Exploration & Prospecting	3.2%	3.1%	2.2%	56.3%	6.0%	3.9%	6.0%	-14.2%
UV – Rural / Pastoral	3.0%	3.1%	1.9%	57.1%	9.0%	6.3%	6.6%	4.0%
GRV – Mining	12.8%	2.5%	2.0%	24.2%	10.0%	7.0%	6.0%	4.0%



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22 May 2019

Mr Colin Bastow
Chief Executive Officer
Shire of Wiluna
PO Box 38
WILUNA WA 6646

By email to: ceo@wiluna.wa.gov.au

Dear Sir

SUBMISSION - DIFFERENTIAL RATING 2019/20

Thank you for the opportunity to make a submission regarding the proposed rates for 2019-20.

We note that valuations provided by the Valuer General are used in calculating mining tenement rates, and these valuations are based on the rent imposed by the Department of Mines, Industry Regulation and Safety. Any increases in the rent therefore result in an increase in valuations and in turn an automatic increase in rates.

Effective from 1 July 2018, the Department increased the rent rate by 1.5% for exploration licences and 6% for all other mining tenements. From 1 July 2019, the Department will increase exploration licence rents by a further 1.5% and the rent of all other mining tenements by a further 6%.

We recognise and commend the proposed reduction in the UV Exploration & Prospecting rate in dollar for 2019-20. We note the Shire has however proposed an increase to the UV Exploration & Prospecting minimum and an increase to the UV Mining rate in dollar and minimum. We therefore write to draw attention to the automatic increase in rates due to the increase in rents so that this may be taken into account in your budget modelling, and ask that you consider maintaining or reducing the minimum for these categories and the UV Mining rate in dollar for the 2019-20 year.

The resource sector is already one of the most significant contributors to the State's economy, with the WA Government receiving royalty revenue totalling \$5.8 billion in 2017-18 – a major proportion of the State's annual revenue. It is also one of the most significant employers in the State, with the WA minerals sector directly employing over 120,000 people in 2018.

To encourage the continued contributions made by the resources sector to the State economy it is critical that all government fees are set so as to reduce the cost of doing business in the State in the face of significant international competition wherever possible, and increase and incentivise investment in local exploration to discover vital new resources which benefit the whole of the State.

I would be happy to discuss this matter further on (08) 6467 7997.

Yours sincerely

Shannon McMahon
Director

Appendix 4.1.1.B

STATEMENT OF OBJECTIVES AND REASONS FOR DIFFERENTIAL RATING

To provide equity in the rating of properties across the Shire the following rate categories have been determined for the implementation of differential rating:

Differential General Rate

Description	Characteristics	Objects	Reasons
GRV Wiluna Townsite	Properties within the townsite boundaries	The object of the GRV rate is to allow sufficient revenue for the Shire to operate efficiently and provide a diverse range of services while maintaining 4% revenue growth in 2019/20 consistent with the Shire's long-term financial plan.	The reason for the level of GRV rate is to allow for a fair contribution to the maintenance and provision of town infrastructure and services to a sustainable level.
GRV Mining	Mining properties with significant accommodation, recreation or administration facilities and associated buildings where the Minister has determined pursuant to section 6.28 of the Local Government Act 1995 that the property is to be on a GRV basis	The object of the GRV Mining rate is to raise the necessary revenue for Council to operate efficiently and provide a diverse range of services.	<p>The reason for setting GRV Mining rate at a higher level than GRV Wiluna Townsite rate is to ensure a sector of ratepayers that essentially are transitory contributes to the maintenance of the Shire's established assets and services to the extent that the mining operators use them.</p> <p>These include:</p> <p>Unsealed roads - amongst the services utilised by ratepayers with tenements would be the extensive network of unsealed roads within the Shire. A substantial amount of budgeted capital expenditure is for works on Shire roads.</p> <p>Refuse site - Mining and Exploration activities impose a heavy burden on the shire refuse site increasing maintenance cost and shortening the life of the landfill site.</p> <p>Resources - Mining removes finite resources from the shire. Ultimately this will have an impact on the mining industry within the shire, which will in turn impact rate revenue in future years.</p> <p>Shire administration - Mining, Exploration and Prospecting activities impose a greater administration service requirement on the shire (applications, enquiries, tenement changes and revaluations).</p> <p>Furthermore, in general mining operators use established Shire services and infrastructure but contribute very little or no enterprise to the community.</p>

Description	Characteristics	Objects	Reasons
UV Rural/Pastoral	Properties within the Shire that are predominately for rural use.	The object of the UV Pastoral rate is to ensure that the proportion of total rate revenue derived from UV Pastoral is comparable with previous years and provides the base rate to assess the other UV-rated properties.	<p>The reason for the lower rate for UV Pastoral is to reflect the lower impact on transport infrastructure compared to the UV Mining category.</p> <p>Pastoral leases within the Shire of Wiluna are normally large parcels of land that attract a relatively high valuation. The Pastoral UV rate ensures that every landowner makes a reasonable contribution to the rate burden.</p>
UV Mining	Properties within the Shire with a mining tenement lease.	<p>The objects of the UV Mining and UV Exploration and Prospecting rates is to raise the necessary revenue for Council to operate efficiently and provide a diverse range of services.</p> <p>In previous years the UV Exploration and Prospecting rate was considerably higher than the UV Mining rate, which was considered anomalous for a number of reasons.</p>	<p>The reason for setting UV Mining and UV Prospecting and Exploration rates at a higher level than UV Pastoral is to ensure a sector of ratepayers that essentially are transitory contributes to the maintenance of the Shire's established assets and services to the extent that the mining operators use them.</p> <p>These include:</p> <p>Unsealed roads - amongst the services utilised by ratepayers with tenements would be the extensive network of unsealed roads within the Shire. A substantial amount of budgeted capital expenditure is for works on Shire roads.</p> <p>Refuse site - Mining and Exploration activities impose a heavy burden on the shire refuse site increasing maintenance cost and shortening the life of the landfill site.</p> <p>Resources - Mining removes finite resources from the shire. Ultimately this will have an impact on the mining industry within the shire, which will in turn impact rate revenue in future years.</p> <p>Shire administration - Mining, Exploration and Prospecting activities impose a greater administration service requirement on the shire (applications, enquiries, tenement changes and revaluations).</p> <p>Furthermore, in general mining operators use established Shire services and infrastructure but contribute very little or no enterprise to the community.</p>
UV Exploration & Prospecting	Properties within the Shire with an exploration or prospecting tenement lease.	<p>In 2019/2020 it is intended to achieve rating parity between the two categories by increasing the UV Mining rate by 7.56% and reducing the UV Exploration and Prospecting rate by 14.16%.</p> <p>The yield across the sector based on 2018/18 values will increase by 4% in line with the Shire's Long-Term Financial Plan and the rate increase imposed on other categories</p>	

Differential minimum payments

Description	Characteristics	Objects	Reasons
GRV Wiluna Townsite	Properties within the townsite boundaries	The minimum payment for GRV Wiluna Townsite is higher than that for the other categories as a number of the assessments that the minimum will apply to are vacant blocks. Additional expense is incurred by the Shire in maintaining these vacant lots in a clean and safe condition as owners are generally absent.	The minimum payments are a realistic contribution that any property should make towards the cost of services provided.
GRV Mining	Mining properties with significant accommodation, recreation or administration facilities and associated buildings where the Minister has determined pursuant to section 6.28 of the Local Government Act 1995 that the property is to be on a GRV basis	The object of the minimum payments is to ensure that every landowner makes a reasonable contribution to the rate burden.	
UV Rural/Pastoral	Properties within the Shire that are predominately for rural use.		
UV Mining	Properties within the Shire with a mining tenement lease.		
UV Exploration & Prospecting	Properties within the Shire with an exploration or prospecting tenement lease.		