






CENTRAL DESERT SHIRE

two ways :: one outcome

Rating Proposal Options 2012/2013

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1 Background

Under the Local Government Act 2008 (the Act) Chapter 11, land within a local government area is divided into three basic categories:

- Rateable land
- Conditionally rateable land; and
- Exempt land

Conditionally rateable land is generally either a pastoral lease or mining tenement. Rateable land comprises all land that is not conditionally rateable or exempt.

From the inception of the Shires in 2008 until the 2011/12 financial year, the Shire has been guided in its rating practices by the guidelines established by the Minister for Local Government (the Minister) in 2008/2009.

The Ministerial Guidelines have capped any rate increase for conditionally ratable properties to not increasing the maximum limit of rate revenue from a property by more than the CPI amount, with no significant change to the system of calculating the rate payable in any financial year (Gazette No. S8, 25 February 2009).

In 2011/12 the limitations imposed on the Shire Councils as a result of Gazette No. S8 dated 25 February 2009, expire. This will allow the Shire to review their rating policy and modify, if required, the rates applied to rateable land within the Shire.

According to the Ministerial guidelines, a Council is required to advise the Minister of its rating proposal in relation to conditionally rateable land no later than February. The Council may thus make one of two choices in relation to conditionally rateable land. They may either:

a) Continue to rate rateable and conditionally rateable land in accordance with the above guidelines, or

b) Make application to the Minister to change the way rates are applied.

Should the Council request to change the way conditionally rateable land is rated, the Council is required to provide a range of information to the Minister including:

- Services provided to the residents of the Shire
- A comparative analysis of the contribution to the Council revenue; and
- A report on the impact of the Minister's approval or otherwise of the rating proposal.

This report provides the Minister with the information required to support the rating proposal for conditionally rateable land as per the Minister's requirements. This report also looks at rating for non-conditionally rated land and examines statutory charges.

2 About the Central Desert Shire

On the 31st January 2007 structural reform of local government was announced by the Northern Territory government. On 1st July 2008 the Central Desert Shire Council was established under the Local Government Act 2008 covering an area of 282, 093 km2. This legislation brought together the following bodies:

- Anmatjere Community Government Council,
- Arltarlpilta Community Government Council,
- Lajamanu Community Government Council,

- Yuendumu Willowra Community Government Council,
- Nyirripi Community Inc,
- Yuelamu Community Inc.

Council provided a broad range of municipal services from each of its nine service delivery centres and also support 18 occupied outstations and six currently unoccupied outstations. These service delivery centres are located at Engawala, Atitjere, Lajamanu, Laramba, Nyirripi, Ti-Tree, Willowra, Yuelamu and Yuendumu.

Services were delivered to an estimated resident population of approximately 4,820 people.

Locality	Population
Nyirripi	280
Lajamanu	790
Yuendumu	820
Willowra	300
Ti-Tree	1,005
Laramba	355
Engawala	150
Atitjere	280
Yuelamu	240
Other communities	600
Total	**4,820**

The main industries within the Shire are:

- Mining;
- Beef cattle;
- Services for mining, pastoralists and tourists;
- Tourism;
- Public sector service delivery, including servicing the nine indigenous communities identified above.

3 Revenue and Rating History

Since its inception until the 2011/2012 financial year, the Council has been guided in its rating regime by the Minister's Guidelines. Although these guidelines expired in the 2011/2012 financial year, the Council maintained the same conditional rating regime in the 2011/12 financial year.

The following table provides the revenue for the Council over the past four years:

	2008/2009	2009/2010	2010/2011
Total Revenue	$ 29,128,838 (1)	$ 29,695,451	$ 28,569,888 (2)
Total Rate Revenue (excluding statutory charges)	$ 397,023	$ 378,580	$ 389,940
Conditional Rating Revenue	$ 27,172	$ 31,870	$ 35,711 (3)
Rates as % Revenue	0.81	1.27	1.36

(1) Excludes $20,081,364 gain on restructure of local government.

(2) Excludes $20,505,015 gain from asset revaluation.

(3) The Council was unable to apply conditional rating in the 2010/2011 year due to an administrative error. This column is calculated on the conditional rating proposal submitted.

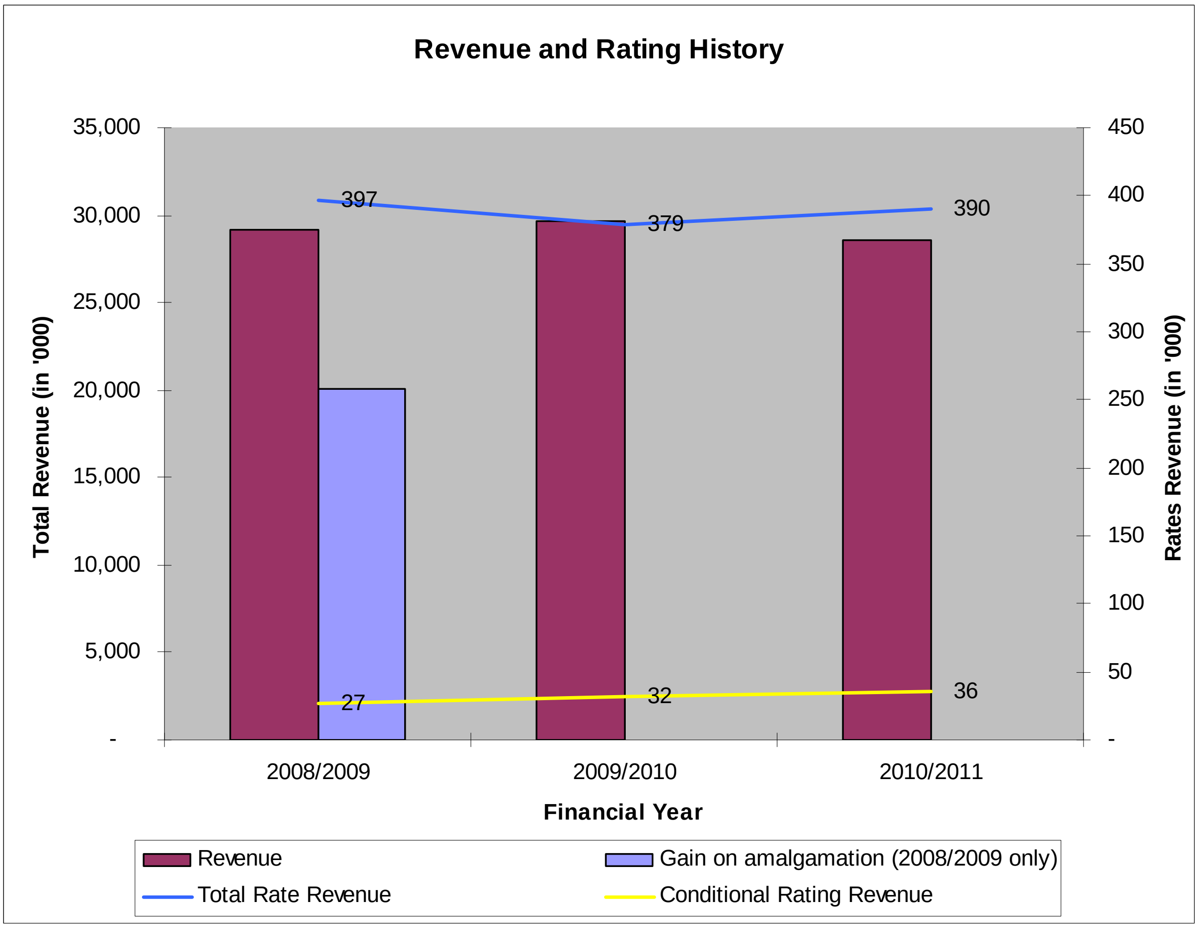

Figure 1: Revenue and Rating History

In the 2010/2011 financial statements, the Central Desert Shire raised $389,940[1] in rates and statutory charges. This represented 1.56% of the total operating revenue of $28,569,888. The following chart indicates the main sources of revenue for the Shire.

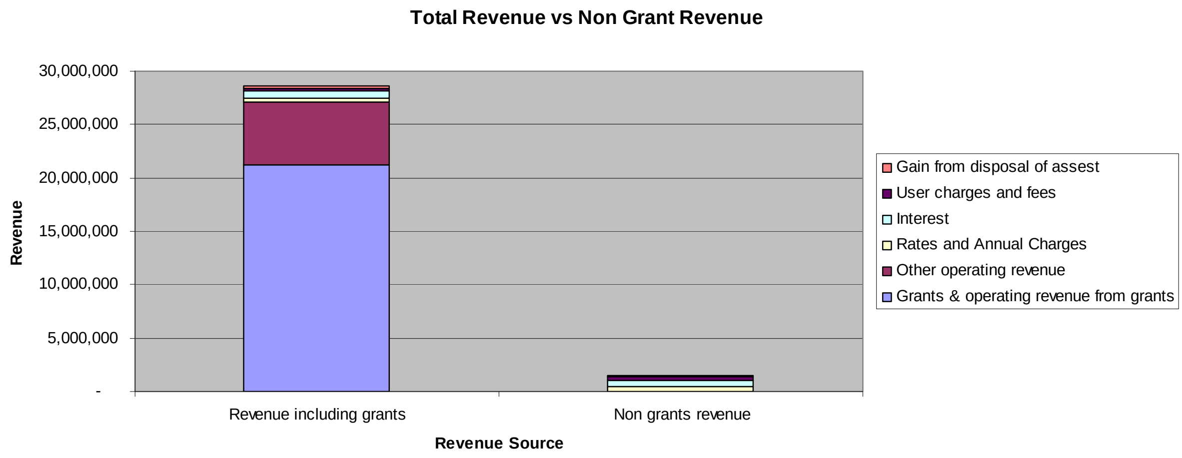

Figure 2: Revenue Sources 2010/2011 Financial Year

Rates represent a minor source of income for the Shire with approximately 86% of its revenue being sourced from Grants.

The rates received were sourced from the following rating categories:

Rating Category	Total Revenue
Residential	349,275
Farmland	4,806
Business	3,033
Conditionally	32,826
Waste Management Charges	87,371
	477,311

As is evidenced from the above analysis, the Shire is heavily dependent upon grant funding. Grant funding might vary from one year to another depending on execution of funding agreements and amount Commonwealth and Territory Govt. have budgeted for different programs for a specific financial year. Revenue from grants is typically tied, either to specific program delivery or to specific capital projects, and thus does not form part of the Shire's untied or discretionary revenue.

[1] This amount includes a grant of $32,826 which compensated the Council for conditional rates that were unable to be charged due to administrative error.

3.1 Rates and Charges Revenue

The following chart illustrates how the various rate categories and charges contribute to the overall rates revenue.

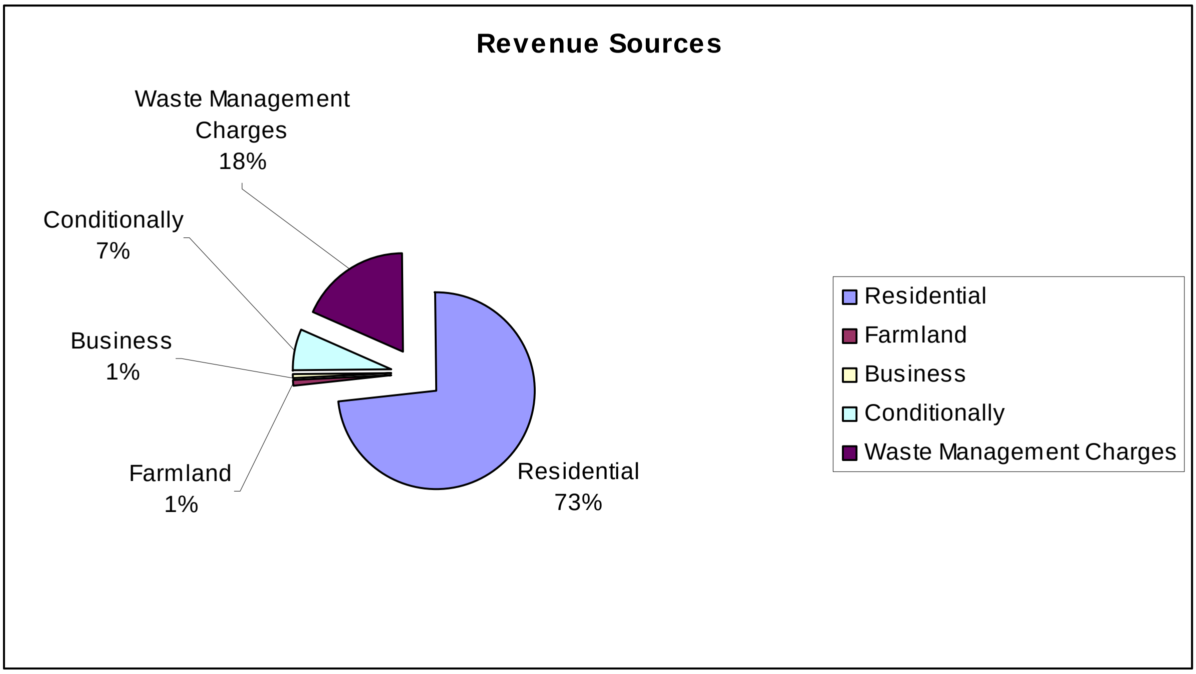

Figure 3: Rates revenue by rating category

As illustrated above, 73% of the Shire's rates revenue is collected from the domestic or residential rating category.

The following provides for a snapshot of the Shire's rates distribution in accordance with the 2011/2012 rating period:

Rating Category	# Properties	Average Rate Charged	Total Rates	Average UCV	Total UCV
Residential	552	656.25	362,250		
Commercial Agriculture	14	328.00	4,592	27,214	381,000
Commercial and Business	10	777.00	7,770	25,700	257,000
Mining / Extractive Lease*	11	1,049.32	11,542	184,216	2,026,376
Pastoral Lease*	29	663.28	19,235	956,472	27,737,700

*Subject to conditional rating.

Based on the current minimum rates established, the majority of the non-residential properties within the Shire are charged at the minimum rate.

Rating Category	# Properties	# on min	% on minimum
Commercial Agriculture	14	14	100%
Commercial and Business	10	10	100%
Mining / Extractive Lease*	11	9	60%
Pastoral Lease*	29	10	34%
	64	43	67%

This is primarily due to the delays that the Shire has experienced getting land valuations.

4 Conditionally Rateable Land

The Central Desert Shire Council has twenty nine pastoral leases and eleven mining tenements.

There is one major gold mining enterprise, the remaining mining tenements relate to exploration or small gem activities. According the companies own information (October 2011 press release) Newmont Mining Corporation reported a consolidated revenue of $2.7 billion for the third quarter of 2011 and $7.6 billion year-to-date, as well as operating cash flow of $1.3 billion for the third quarter of 2011 and $2.7 billion year-to-date. Newmont's third quarter 2011 adjusted net income increased 19% to $635 million for the third quarter of 2011, from $533 million for the third quarter of 2010.

There is potentially a second large mining enterprise being developed in the Ti Tree area, it is anticipated that this rare earth mine will employ a maximum of 120 when fully operational.

In the 2010-11 financial year Council received $19,235 in conditional rates from pastoral properties and $11,542 from mining tenements, a total of $ 27,172.

These businesses are significant commercial enterprises earning tens of millions of dollars in revenues and millions of dollars in profit each year.

5 Development of Rating Proposal

5.1 Historical Rating Regimes

The Central Desert Shire, in accordance with the Ministers guidelines has applied a combination of differential rating based on *unimproved capital value* and fixed charges. These rates have been applied to a property categories based on the use of the property. The categories are detailed below:

- *Pastoral Leases and Commercial Agricultural Properties* - Pastoral leases are determined as those subject to leases under the Pastoral Land Act.
- *Active Mining, Extractive and Petroleum Leases* – is defined by the Local Government Act as "means a statutory lease or authority authorising the commercial production of minerals, petroleum or natural gas from land (but if some further statutory authorisation or approval is necessary for the commercial production of minerals, petroleum or natural gas from the land, such a lease or authority is not to be considered a mining tenement unless the further statutory authorisation or approval exists).

- *Residential properties* – residential properties are those properties used as a domestic dwelling.

The following table is a representation of the rating regime within the Shire:

Differential rating category	Applied to	2008/2009	2009/2010	2010/2011	2011/2012
Residential	FIXED	Fixed charge of $600.00	Fixed charge of $622.20	Fixed charge of $640.87	Fixed charge of $656.25
Commercial or business	UCV	0.284% UCV with min.$710.00	0.294508% UCV with min. $736.27	0.30334% UCV with min. $758.36	0.311% UCV with min. $777.00
Active Mining, Extractive and Petroleum Leases (conditionally rated)	Assessed value	0.284% with min.$710.00	0.294508% with min. $736.27	0.30334% with min. $758.36	0.311% with min. $777.00
Commercial Agricultural Properties	UCV	0.060% UCV with min.$300.00	0.062220% UCV with min. $311.10;	0.06409% UCV with min. $320.43	0.0656% UCV with min. $328.00.
Pastoral Leases (conditionally rated)	Assessed value	0.060% UCV with min.$300.00	0.062220% UCV with min. $311.10;	0.06409% UCV with min. $320.43	0.0656% UCV with min. $328.00.

The initial rating charges for all categories of rating were established by the NT Government as part of the amalgamation process. Increments since the inception have been constrained by the Ministerial Guidelines which have capped rating increases for conditionally rateable land to Darwin CPI.

5.2 Options for Future Statutory Charges

5.2.1 Funding of Animal Management Programs

The Council currently operates a companion animal control program that provides direct benefit to residents of the nine indigenous communities and indirect benefit to the other ratepayer categories. Based on a “user pays” principle, it is reasonable to directly apply this cost to the residential communities.

Currently there are 552 residentially rated properties in the Shire. Based on an estimated cost of $150,000 per annum, full cost recovery of this service would require an additional increase on residential rates of $271.73 per residential property.

Number of impacted properties	552
Allocation per property	$ 150,000 / 552
	$ 271.73 per property

Animal Management: If the Council wishes to full fund the animal management program from the rates received within the residential areas, the fixed rate for residential properties would need to be increased by $271.73 per property.

5.2.2 Recovery of Costs for Waste Collection

Waste Management is a statutory charge under the Act. Currently a charge of $164.05 per annum per residential dwelling is applied in respect of the garbage collection services to the designated communities.

Based on the 2010/2011 actual costs, waste management cost the Shire $617,004. Non statutory charge related revenue amounted to $262,592. Based on this revenue the Council experienced a short fall of revenue to expenditure of $354,412.

	2010/2011 Actual Cost
Actual Cost of Waste Management	-$617,004
Other Waste Collection Revenue	$262,592
Short fall	-$354,412

Currently, the communities receive waste collection services several times a week as per the following table:

Community	Collections per week (on average)
Atitjere	3
Engawala	4
Lajamanu	3 (2 bins)
Laramba	2
Nyirripi	1
Ti Tree	2
Willowra	2
Yuelamu	3
Yuendumu	5

Option 1: Maintain existing service levels

The Council currently provides a waste collection service to 552 residential properties and ten commercial properties. Based on an equal charge being applied to both residential and commercial waste collection (both entities currently receive the same level of service) the net waste collection expenses should be equally allocated to the those properties receiving the service:

Number of impacted properties	562
Allocation per property	$ 354,412 / 562
	$ 630.00 per property

The above calculation assumes that each community receives an equitable service. In Lajamanu, two waste bins are provided and therefore it is recommended that this waste collection charge also be applied for the second bin (at half the standard rate).

Waste Collection - Option 1: Maintain existing Service Levels – Waste collection charges are applied at $630 per property for the first waste collection bin per annum with additional bins collected charged at $315.00 per annum for each additional bin collected. **Given that waste collection remains a priority both within the community and within other government departments, it is recommended that existing service levels are maintained. This is the recommended option.**

Option 2: Reduce service levels

As identified in the above table, most communities receive waste collection services well in excess of the stated once per week. Across the nine service delivery centres this equates to 25 collections per week as opposed to 9 times per week.

If waste collections were reduced to once a week there could potentially be a reduction in the cost of waste collection from $354,412 to $118,137.33. Based on an equal distribution between properties this equates to $ 210.21 per property. Once again, it is recommended that any second bin collection (on the same day) is charged at half the normal bin charge and this would equate to $105.10 per additional bin.

Waste Collection - Option 2: Reduce Service Levels – Waste collections are strictly enforced at one collection per community per week. Waste collection charges are applied at $210.21 per property for the first waste collection bin per annum with additional bins collected charged at $105.10 per annum for each additional bin collected. Reducing service levels at this time may adversely impact upon the health and amenity of communities through increased litter. Given that waste collection remains a priority both within the communities and within other government departments, any reduction in service levels is undesirable and thus this is NOT the recommended option.

5.3 Options for Future Rating Structures for General Rating

5.3.1 Local Government Cost Index

In October 2011, the Local Government Association of the Northern Territory (LGANT) produced a Local Government Cost Index (LGCI). Local Government Indices are well established in other states and are developed to reflect a price index reflective of break up of expenditure within a local government authority.

The Local Government Cost Index attempts to better reflect the true inflationary impacts on the Council. This index is constructed using price indexes based on the expenditure type. For example, the Wage Price Index NT is applied to that component of the Council's expenditure that relates to wages, and a proportion of the Producer Price Indexes [Roads & Bridges Construction] Australia is applied to that proportion of the Council's expenditure that relates to Materials and Contracts.

The Local Government Cost Index should be viewed as the minimum increment required to maintain the Council at its existing service levels, *all other factors being equal*. The application of the Local Government Cost index will not allow the Council to fully fund waste management, animal management, or recover the costs associated with the introduction of the new lease payments.

The LGCI for the NT clearly demonstrates that local government authorities across the Territory are exposed to higher than CPI (which is specifically related to domestic consumerables).

The LGCI developed by LGANT has been calculated using the indices based on the expenditure cateogies:

Expenditure Category	Expenditure Distribution %	Index Calculation
Wages, salaries	34.0302	Labour Price Index Australia/Wage Price Index NT
Materials, contracts	35.1805	Weighted index adopted : 75% Producer Price Indexes [Roads & Bridges Construction] Australia; 25% CPI; split based on Darwin City Council and/or East Arnhem Shire expenditure details
Depreciation	13.4368	Weighted index adopted : 90% Producer Price Index [Roads & Bridges Construction] Australia; 10% Non-Residential Building Construction Costs NT; split based on Darwin City Council and/or East Arnhem Shire expenditure details
Other	17.3525	Consumer Price Index Darwin
TOTAL	100	

Based on the above calculation, LGANT determined that the 2010/2011 LGCI is 4.24%. It is recommended that the LGCI is applied, as a minimum, as the Council's basic rates index.

For more information on the Northern Territory Local Government Cost Index please refer to the LGANT document.

General Rating Option 1: Application of Local Cost Index (LGCI) – The indexing of total rate revenue by the LGCI allows Council's to better match the true cost increases experienced by the local authority whilst conducting its day to day options. The application of the LGCI should be considered as a minimum increment *all other factors remaining equal*. Given that it is the Officer's recommendation that the fixed rate for residential properties be increased to recover anticipated leasing costs, it is NOT recommended that the LGCI be applied to residential properties. It is recommended that the LGCI be applied to the business and commercial agricultural rating categories.

5.3.2 Recovery of Leasing Expenses

At the expiry of the Section 19 Leases, it is anticipated that the Central Land Council will seek to recover leasing payments from the Central Desert Shire. The Council has been advised by the Northern Territory Government that they have already committed to paying between 5% UCV and 10% UCV for properties occupied by their agencies.

It is difficult to make a comprehensive assessment of impact that lease payments will have on the financial sustainability of the Council as:

- the land valuations are not available for the majority of the land within the Shire;
- the ability of the Council to pass the lease costs onto the Agencies is unclear; and
- the extent to which the Council will be required to pay leasing payments on common usage areas (such as parks) is unclear.

Based on the following assumptions, it is anticipated that the Council will be required to pay leasing costs of approximately $250,000:

- nominal UCV applied to all properties of $20,000;
- public open spaces and community use buildings (such as ablution blocks) excluded; and
- a residential rate of 5% and a commercial rate of 10% applied to the respective properties.

To recover this cost from overall rate base would require a **64%** increase in the overall rates take (increase the total rate revenue from $ 389,940 to $639,940).

Based on the current rating regime this would require:

Rating Category	Applied 2011/2012	Target Rates to Cover Leasing Costs	Rates Required to Cover Leasing Costs
Residential	Fixed charge of $656.25	$579,600	Fixed charge of $**1,050**
Commercial or business	0.311% UCV with minimum $777.00	$12,432	**5.02**% UCV with minimum of $**777** or **4.15**% UCV with minimum of $**1,000**
Active Mining, Extractive and Petroleum Leases (conditionally rated)	0.311% with minimum $777.00	$18,467	**0.699%** with minimum $**777** or **0.611%** with minimum of $**1,000**
Commercial Agricultural Properties	0.0656% UCV with minimum $328.00.	$7,347	**4.807**% UCV with minimum $**328** or **.07%** UCV with $**525** minimum
Pastoral Leases (conditionally rated)	0.0656% UCV with minimum $328.00.	$30,776	**0.11%** UCV with minimum $**328**

It should be noted that the introduction of the higher minimum rate does change the number of properties that have the minimum applied and also impacts on the UCV value above which the differential rates are charged.

There is a strong case to suggest that the lease payments incurred by the Council will be primarily the result of infrastructure based within communities and for the benefit of the residents of those communities. On this basis, the residential and commercial properties should bear the majority of the impost of the lease payment burden. To recover lease payments from residential and commercial rated properties would require that the fixed rate residential rate be increased to $1,050 per property. The increase required to be applied to Commercial Premises appears to be excessive (more than 1600% to the base rate).

General Rating Option 2: Recovery of Lease Expenses - It is recommended that the minimum charge for residential rated properties be increased to $1,050 per property to assist with the recovery of anticipated leasing expenses.

5.3.3 Application of CPI

Since the inception of the Council in 2008 the Ministerial Guidelines have required the Council to index conditionally rated properties at the Darwin December quarter CPI figure. The Council has maintained equity between other rating categories within the Shire. It is not necessary to apply the same rating indexing across all rating categories and indeed, as the Council's rating strategy becomes more sophisticated, they may differ due to changes in the UCV loading within the different categories.

General Rating Option 3: Application of CPI – This option is not recommended at this time, however, as the difference between the application of the LGCI and CPI equates to $ 178.03. The Council may choose to continue to apply indexing consistently across general non-residential properties and conditionally rated properties.

5.4 Principles of Proposed Rate Structure for 2012/2013

It is a key principle of taxation that taxes are not fee for service. Taxes are levied to raise revenue for the public or quasi public services and infrastructure provided by governments. Where it is possible to identify specific users of a service (for example was collection above) the funding of that service is more appropriately done through charging directly for the services than by funding through general taxation.

Based on this premise, rates should be applied so that it meets the three general principles of taxation being equity, efficiency, and simplicity.

The concept of equity requires that those ratepayers who are better off should pay more than those who are worse off. If this concept is accepted, a method of determining the appropriate rate load should be determined. Given that the Council has no way of determining a person's income, rates can not be applied to this measure. The only generally accepted method of determining a ratepayer's level of wealth that is available to the Council is the capital value of the land (this on the presumption that the more earning capacity the land has the more value the land has).

On this premise, it is recommended that the Council adopt an overall philosophy that a ratepayer (and consequently a ratepayer category) should contribute to the overall rate revenue in proportion to the value of their land.

The application of this principle is complicated by the lack of values on much of the land within the Central Desert Shire. For this reason, a nominal value of $50,000 per residential block has been considered for the purposes of equity distribution purposes.

The following table shows the relative UCV distribution between the different rating categories.

Rating Category	Average UCV	Total UCV	Percentage of total UCV
Residential	$ 25,000	$ 13,800,000	31%
Commercial Agriculture	27,214	381,000	1%
Commercial and Business	25,700	257,000	1%
Mining / Extractive Lease*	184,216	2,026,376	5%
Pastoral Lease*	956,472	27,737,700	63%
		58,002,076	

To ensure continued equity, these figures should be recalculated annually to reflect changes in land valuations.

5.5 Options for Future Rating Structures for Conditionally Rated Land

The Central Desert Shire Council seeks approval for the Minister to modify the existing conditional rating regime based on one of the following options. The following proposed changes have been established to achieve an equitable contribution from pastoral and mining industries towards the services provided for the whole council area.

5.5.1 Full recovery based on UCV equity

The following scenario has been based on the premise that the pastoralists and mining tenements should be an equitable amount to the whole Shire area based on UCV. The calculation has been made on a nominal UCV of $25,000 per residential block.

Based on 62.8% of UCV the pastoralists should contribute a greater contribution as the residential properties. If the residential contribution to remain at the same indexed value as 2011/12 the pastoralist contribution to the total rates revenue should be $760,059.95.

This would require the contribution of the pastoralists to increase to approximately 2.74% UCV. It is unlikely that this increase can be implemented over the foreseeable future. The following table demonstrates how this could be applied with the rate in the dollar doubling every year over the four year period to .96% UCV (or .96 cents in the dollar) in 2015/2016.

Using the same approach, the mining tenements should contribute approximately $ 28,000. Given that a number of the current mining leases are of extremely low value (UCV), it is considered that a minimum rate of $800 is appropriate. Based on this minimum a rate of 0.463% UCV has been applied.

Conditional Rating Regime using Option 1

Land Use	2011/2012 Applied	*2012/2013 Proposed*	*2013/2014 Proposed*	*2014/2015 Proposed*	*2015/2016 Proposed*
Mining	.311% UCV	*.463% UCV*	*0.482*% UCV*	*0.501*% UCV*	*0.521*% UCV*
Minimum	$777	*$800*	*$800*	*$800*	*$800*
Revenue		*$27,926*	*$29,043*	*$30,205*	*$31,413*
Pastoralist	.06% UCV	*0.12% UCV*	*0.24% UCV*	*0.48% UCV*	*0.96% UCV*
Minimum	$328	*$500*	*$550*	*$605*	*$650*
Revenue		*$ 24,623*	*$ 47,190*	*$ 94,047*	*$188,095*
Total Revenue		*$52,553*	*$76,233*	*$124,252*	*$219,507*

* Based on .463% UCV indexed by 4%

It is important to note that the application of Option 1 - full recovery UCV equity, to the conditionally rated properties will fully cover the anticipated leasing costs.

Conditional Rating Option 1: Full recovery based on UCV Equity – This option proportions the overall rate take over all properties within the Shire based on UCV values. This option, whilst useful for analysis purposes, does not meet the requirements of a fair rating system and is NOT recommended for consideration.

5.5.2 Weighted UCV

The following scenario builds on option 1 but utilizes the property numbers to create a weighted UCV value using property numbers as well as UCV on the premise that usage of Council services is also related to the number of properties in the category group.

	# Prop	Average UCV	Total UCV	Weighting based on #properties to total properties	Adjusted UCV	Rates contribution based on weighted UCV	Total target rates
Residential	552	25,000	13,800,000	0.896	12366233	90.13%	380,851.27
Commercial Agriculture	14	27,214	381,000	0.023	8659	0.06%	266.68
Commercial and	10	25,700	257,000	0.016	4172	0.03%	128.49

Business							
Mining / Extractive Lease*	11	184,216	2,026,376	0.018	36185	0.26%	1,114.42
Pastoral Lease*	29	956,472	27,737,700	0.047	1305833	9.52%	40,216.63
			44,202,076		13721083.5		422,577.49

Based on a weighted UCV contribution of 9.52% of UCV the pastoralists should contribute approximately **$ 40,216.63**.

This would require the contribution of the pastoralists to increase to approximately **0.142%** UCV based on a $500 minimum.

This could be phased in over the four years as outlined in the following table (24 % increment per annum):

Rating Regime using Option 2: Weighted UCV

Land Use	**2011/2012 Applied**	*2012/2013 Proposed*	*2013/2014 Proposed*	*2014/2015 Proposed*	*2015/2016 Proposed*
Mining	.311% UCV	*.463% UCV*	*0.482*% UCV*	*0.501*% UCV*	*0.521*% UCV*
Minimum	$777	*$800*	*$800*	*$800*	*$800*
Revenue		*$27,926*	*$29,043*	*$30,205*	*$31,413*
Pastoralist	.06% UCV	*0.0744% UCV*	*0.092% UCV*	*0.115% UCV*	*0.142% UCV*
Minimum	$328	*$500*	*$500*	*$500*	*$500*
Revenue		*$23,426*	*$27,477*	*$33,097*	*$40,181*
Total Revenue		*$51,352*	*$56,520*	*$63,302*	*$71,594*

* Based on .463% UCV indexed by 4%

It is important to note that the application of Option 2 –weighted UCV equity, to the conditionally rated properties will NOT cover the anticipated leasing costs in the first year but will cover the anticipated leasing costs in 2013/2014.

Conditional Rating Option 2: Weighted UCV – The Weighted UCV option presents the most equitable distribution of the rating burden across the various rating categories. This option provides for a 25% increase in rates per annum over a four year period. This option whilst not recommended at this time, presents a fairer and more equitable basis for calculating future rating strategies.

5.5.3 Application of Local Government Cost Index

As discussed in section 5.3.1 above, the Local Government Cost Index attempts to better reflect the true inflationary impacts on the Council. This index is constructed using price indexes based on the expenditure type. For example, the Wage Price Index NT is applied to that component of the Council's expenditure that relates to wages, and a proportion of the Producer Price Indexes [Roads & Bridges Construction] Australia is applied to that proportion of the Council's expenditure that relates to Materials and Contracts.

The Local Government Cost Index should be viewed as the minimum increment required to maintain the Council at its existing service levels, *all other factors being equal.* **As discussed above, the application of the Local Government Cost index will not allow the Council to fully fund waste management, animal management, or recover the costs associated with the introduction of the new lease payments.**

Application of the Local Government Cost Index has the following impact on conditional rating:

Rating Regime Using Option 3: Application of LGCI

Land Use	**2011/2012 Applied**	*2012/2013 Proposed*	*2013/2014 Proposed*	*2014/2015 Proposed*	*2015/2016 Proposed*
Mining	.311% UCV	*0.329% UCV*	*0.359*% UCV*	*0.390% UCV*	*0.422% UCV*
Minimum	$777	*$800*	*$800*	*$800*	*$800*
Revenue		*$12,031*	*$12,542*	*$13,073*	*$13,628*
Pastoralist	0.06% *UCV*	*0.066% UCV*	*0.069% UCV*	*0.073% UCV*	*0.076% UCV*
Minimum	$328	*$400*	*$400*	*$400*	*$425*
Revenue		*$20,051*	*$20,901*	*$21,787*	*$22,711*
Total Revenue		*$32,082*	*$33,443*	*$34,861*	*$36,339*

* For demonstration purposes the LGCI of 4.24% has been applied across all future years. This would be adjusted annually to reflect the published NT LGCI.

Conditional Rating Option 3: Application of Local Cost Index (LGCI) – The indexing of total rate revenue by the LGCI allows Council's to better match the true cost increases experienced by the local authority whilst conducting its day to day options. The application of the LGCI should be considered as a minimum increment *all other factors remaining equal.* However, given that:

- any changes to the current conditional rating regime require explicit approval from the Minister, and
- the difference between applying the LGCI of 4.24% and the estimated December quarter Darwin CPI figure of 2.8% equates to a difference of $1341.48,

It is NOT recommended that the LGCI be applied at this time.

5.5.4 Application of CPI

Since the inception of the Council in 2008 the Ministerial Guidelines have required the Council to index at the Darwin December quarter CPI figure. As of time of writing the December quarter CPI is not available, however, the September quarter CPI is 2.8%.

Application of this indexing will not require further justification to the Minister.

Conditional Rating Option 4: Application of CPI – This option does not require justification to the Minister and is the most palatable option for the impacted stakeholders. This is recommendation being proposed for 2012/2013 rating period.

5.6 Comparison of Rating Proposals on Total Rating Revenue

The following diagram displays a chart of the various rating proposals. The general rating revenue is also provided for reference.

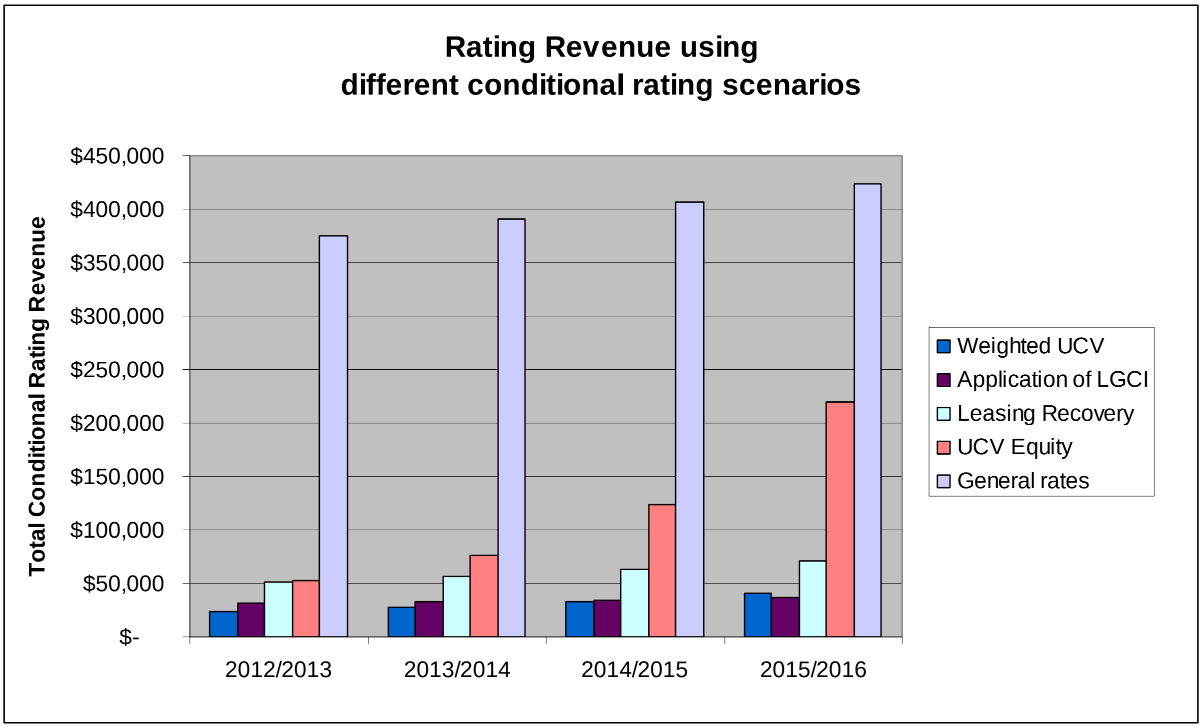

Figure 4: Rating revenue calculated using the difference conditional rating options presented in this report.

The chart above illustrates the following:

- Neither Option 3: Application of LGCI (at 4.24%) nor Option 2: Weighted UCV is sufficient to recover the anticipated leasing expense.
- The Option 2: Weighted UCV is initially lower than the Option 3: Application of LGCI but results in more revenue in year 4.

The following table illustrates the rates coverage ratio based on the various conditional rating scenarios.

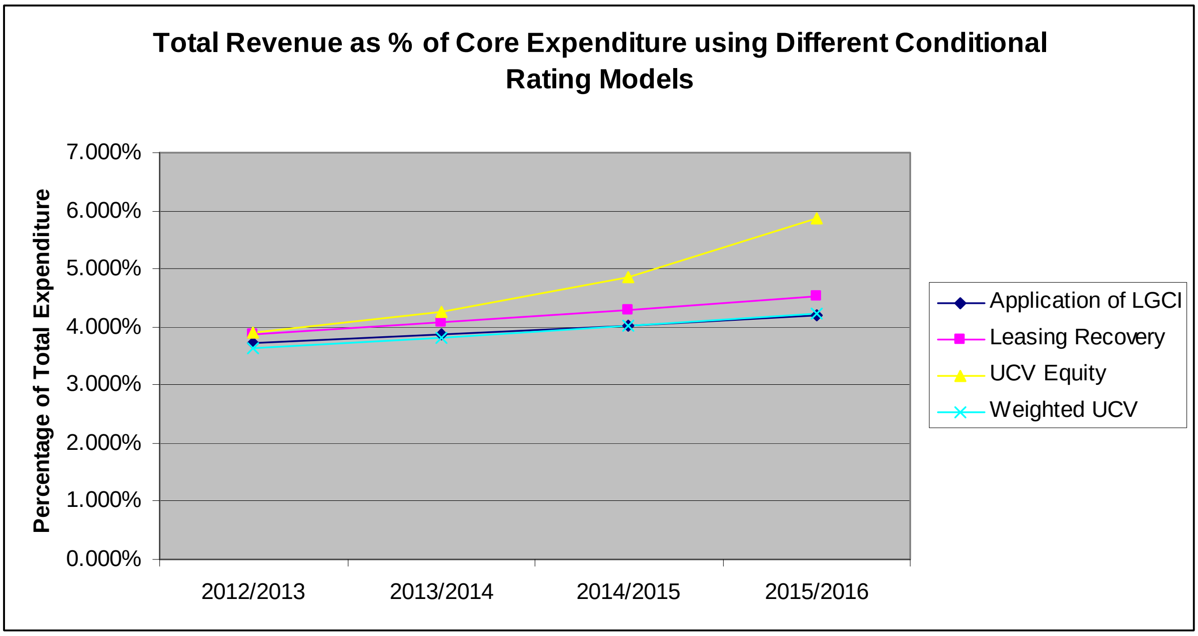

Figure 5: Total rating revenue presented as a percentage of the anticipated core expenditure using the difference conditional rating options presented in this report.

Explanatory notes:

- *Residential rates have had lease recovery and LGCI applied;*
- *Operational expenditure on core services only (ie agency expenses, capital expenditure and depreciation has been excluded); and*
- *Anticipated leasing costs are included.*

In the above example, even with the most aggressive rates scenario (full UCV equity) applied to conditional rating, the total rates revenue remains a small fraction of the total anticipated expenditure on core services only (no capital and no depreciation allowance).

An alternative way of looking at this graph is in actual dollar values. In the chart below the total conditional and general rating revenue is compared with the anticipated expenditure for core local government services. The short fall (ie the gap between the cost predictions and the revenue) demonstrates the grant funding required to maintain current service levels.

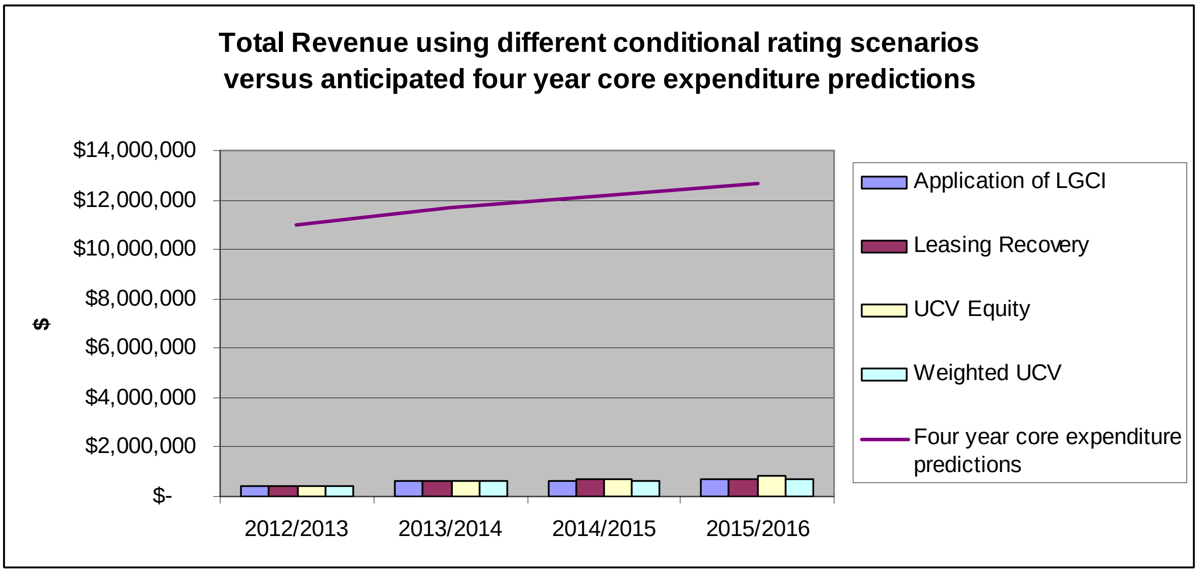

Figure 6: Total general and conditional rates revenue for the difference conditional rating options compared with the anticipated core expenditure over four years.

Explanatory notes:

- *Residential rates have had lease recovery and LGCI applied;*
- *Operational expenditure on core services only (ie agency expenses, capital expenditure and depreciation has been excluded); and*
- *Anticipated leasing costs are included.*

5.7 Rating Regime in Context

To provide some context for this change the following examples of rates raised on pastoral and mining properties in Western Australia and Queensland are provided:

Council	Mining	Pastoral (Agricultural)
Central Desert Shire (2011-2012)	.311 cents in the dollar with minimum of $777	.06 cents in the dollar with minimum $328
Shire of East Pilbara (WA) (2009-2010)	Mining leases 14.95 cents in the dollar with a minimum of $250 Prospecting leases 12.93 cents in the dollar with a minimum of $250	Pastoral 10.01 cents in the dollar with minimum of $250

Town of Port Hedland (WA) (2011-2012)	Mining improved is 31.305 cents in the dollar with minimum of $1,000	Pastoral 5.105 cents in the dollar with minimum of $1,000
Isaac Regional Council (Qld)	Coal Mining (100-150 employees) 5.665 cents in the dollar with minimum $100,000. Coal Mining (151-200 employees) 5.665 cents in the dollar with minimum $105,000. Other Mines/Extractive Land 5.40750 cents in the dollar with minimum $595.	Rural Land – Cattle 0.40990 cents in the dollar with minimum $595.
City of Mount Isa (Qld) (2009-2010)	Mining <200 employees 7.62 cents in the dollar Mining >200 employees 26.06 cents	Grazing – 1.72 cents in the dollar
Shire of Cloncurry (Qld) (2009-2010)	Mining <50 employees 168.96 cents in the dollar with minimum $2,012 Mining >300 employees 126.72 cents in the dollar with a minimum $453,750	Rural – 8.127 cents in the dollar with a minimum rate of $360

6 Service Profile

It is a key principle of taxation that taxes are not fee for service. Taxes are levied to raise revenue for the public or quasi public services and infrastructure provided by governments. Where it is possible to identify specific users of a service (for example was collection above) the funding of that service is more appropriately done through charging directly for the services than by funding through general taxation.

Where it has been possible to identify specific user groups, the Council has attempted to apply charges directly to these groups. This kind of direct charge has been identified in the Council's schedule of user charges and includes:

- Domestic waste collection,
- Commercial waste collection,
- Animal management, and
- Accommodation.

Services which the residents of conditionally rated land have an opportunity to take advantage of:

- Local roads and local traffic management (including directional and informational signage);
- Parks, reserves and open spaces and public ablutions;
- Free access to sporting facilities such as ovals, playing fields and basketball courts;
- Cemeteries;
- Free use of waste facilities in each community (for residential rubbish only);
- Access to library and learning centres in Ti Tree and Lajamanu including free internet access;
- Free use of internet café in Atitjere;
- Full Post Office service in Yuendumu with postal agencies in all other communities;
- Childcare centres in
- Sport and recreation activities and youth based after school activities;
- School nutrition in

In addition to the above, the residents of conditionally rated land gain benefit from the Council's involvement in:

- Local emergency services
- Weed control and fire prevention
- Night patrol

7 Feedback from Rating Review Consultation

Much of the information presented in the above section was made available to ratepayers and stakeholders within the Council as per council resolution 190/2011.

A consultation process was undertaken with all ratepayers during October – December 2011. The consultation process had the following key features:

- A media release resulting in article in Centralian Advocate 28 October 2011;
- Publicity through "News" section of website (including link to survey form);
- A targeted letter to all impacted pastoralists and major stakeholders with Discussion Paper, Rate Review Survey and reply paid envelope;
- A public briefing session on 2 December 2011 (this was publicized on the website and also advised to stakeholders in the targeted letter);
- Extensive information on website in a special section called "Rating Review" which included all documentation:
    - Rates Discussion Paper.
    - Rating Information Sheets.
    - Feedback forms; and
    - Media releases.
- Feedback form on website.

Four responses were received from pastoralists. All the these responses were strongly opposed to any rates being levied on pastoral properties.

Unfortunately no responses were received from other ratepayer groups and thus no conclusions about public opinion can be drawn from the consultation feedback.

A full discussion of the feedback from the Rating Review Consultation is included in Appendix A.

8 Impact of Approval / Non-approval of Rating Proposal

As illustrated in Section 5.6, the Council continues to be heavily reliant on grant income to fund all of its services including core local government services. The rating revenue obtained from both general and conditional rating for a small but highly significant component of the Council's overall revenue stream. Income received from rates is one of the Council's only sources of untied funding. That is funding that may be directed by the Council rather than directed by the funding agency.

As the majority of agency funding is directed at operation expenditure for that agency service and it does not cover expenses such as:

- asset renewal (i.e. replacement of plant and equipment, upgrading of Council owned infrastructure); or
- improvements in service levels (such as oval greening projects).

Untied funding is required by the Council to address these critical issues.

In addition to cost pressures that the Council's experience, the Council will also be required to fund the leasing of Council facilities upon expiry of the current Section 19 leases. This expense will be fully born by the Council for Council assets (such as office buildings, workshops and depots, staff housing, community centres, etc). Failure to adequately fund the Council through its rating regime will result in necessary lessening of service to all of the Council's ratepayers.

Appendix A: Summary of Options

The following is a summary of the options presented in the report:

Animal Management: If the Council wishes to full fund the animal management program from the rates received within the residential areas, the fixed rate for residential properties would need to be increased by $271.73 per property.

Waste Collection – Option 1: Maintain existing Service Levels – Waste collection charges are applied at $630 per property for the first waste collection bin per annum with additional bins collected charged at $315.00 per annum for each additional bin collected. Given that waste collection remains a priority both within the community and within other government departments, it is recommended that existing service levels are maintained. This is the recommended option.

Waste Collection – Option 2: Reduce Service Levels – Waste collections are strictly enforced at one collection per community per week. Waste collection charges are applied at $210.21 per property for the first waste collection bin per annum with additional bins collected charged at $105.10 per annum for each additional bin collected. Reducing service levels at this time may adversely impact upon the health and amenity of communities through increased litter. Given that waste collection remains a priority both within the communities and within other government departments, any reduction in service levels is undesirable and thus this is NOT the recommended option.

General Rating Option 1: Application of Local Cost Index (LGCI) – The indexing of total rate revenue by the LGCI allows Council's to better match the true cost increases experienced by the local authority whilst conducting its day to day options. The application of the LGCI should be considered as a minimum increment *all other factors remaining equal.* Given that it is the Officer's recommendation that the fixed rate for residential properties be increased to recover anticipated leasing costs, it is NOT recommended that the LGCI be applied to residential properties. It is recommended that the LGCI be applied to the business and commercial agricultural rating categories.

General Rating Option 2: Recovery of Lease Expenses - It is recommended that the minimum charge for residential rated properties be increased to $1,050 per property to assist with the recovery of anticipated leasing expenses.

General Rating Option 3: Application of CPI – This option is not recommended at this time, however, as the difference between the application of the LGCI and CPI equates to $ 178.03. The Council may choose to continue to apply indexing consistently across general non-residential properties and conditionally rated properties.

Conditional Rating Option 1: Full recovery based on UCV Equity – This option proportions the overall rate take over all properties within the Shire based on UCV values. This option, whilst useful for analysis purposes, does not meet the requirements of a fair rating system and is NOT recommended for consideration.

Conditional Rating Option 2: Weighted UCV – The Weighted UCV option presents the most equitable distribution of the rating burden across the various rating categories. This option provides for a 25% increase in rates per annum over a four year period. This option whilst not recommended at this time, presents a fairer and more equitable basis for calculating future rating strategies.

Conditional Rating Option 3: Application of Local Cost Index (LGCI) – The indexing of total rate revenue by the LGCI allows Council's to better match the true cost increases experienced by the local authority whilst conducting its day to day options. The application of the LGCI should be considered as a minimum increment *all other factors remaining equal.* However, given that:

- any changes to the current conditional rating regime require explicit approval from the Minister, and
- the difference between applying the LGCI of 4.24% and the estimated December quarter Darwin CPI figure of 2.8% equates to a difference of $1341.48,

It is NOT recommended that the LGCI be applied at this time.

Conditional Rating Option 4: Application of CPI – This option does not require justification to the Minister and is the most palatable option for the impacted stakeholders. This is recommendation being proposed for 2012/2013 rating period.

Appendix A: Rating Review Consultation Feedback