



# RATING METHODOLOGY AND DIFFERENTIAL RATING MODEL

2017 - 2018



## **BASIS OF LOCAL GOVERNMENT RATES IN WESTERN AUSTRALIA**

Local Government rating is regulated through Sections 6.28 to 6.82 of the local Government Act 1995 (the Act). All land within the local government district is rateable land with the exceptions, as specified in Section 6.28 of the Act.

The basis of the local government rates is the improved value (UV) for land used predominately for rural purposes, and gross rental value (GRV) for land used predominately for non – rural purposes. Local governments set a rate in the dollar in order to achieve rating equity, and to raise the revenue required to meet their projected shortfalls.

Local Governments can use differential rating; minimum payments, specified area rates, service charge, discounts and concessions to adjust the rates burden. Local government rates are a property tax based on land or rental value and broadly reflect “the ability to pay”. The rates imposed are not a fee for service.

## **LAND VALUATIONS IN WESTERN AUSTRALIA**

The main legislation for the valuation of land relevant to this review is as follows:

- The Valuation of Land Act 1978: and
- The Local Government Act 1995.

### **THE VALUATION OF LAND ACT 1978**

The valuation of land tax 1978 provides for the valuation of land in Western Australia.

The Valuer General’s Guide to Rating and Taxing Values describes the Valuer General’s role in providing valuations used by rating and taxing authorities, in accordance with the provisions of the Valuation of Land Act 1978 (the VLA). The VLA empowers the valuer General to conduct general valuations based on Unimproved Values (UV) and Gross Rental Value (GRV).

#### **Unimproved Land Values (UV’s)**

A new UV is determined each year for all land within the state, and comes into force on 30<sup>th</sup> June. UV is defined in the Valuation of Land Act 1978, and in some cases it is a statutory formula. As a broad guide the following applies:

- Within a Townsite

For land situated within a townsite the UV is the site value of the land. In general, this means the value of the land as if it were vacant with no improvements except merged improvements. Merged improvements relate to improvements such as clearing draining and tilling.

- Outside a Townsite

The UV of land outside a townsite is valued as if it had no improvements. In this case, the land is valued as though it remains original, natural state, although any land degradation is taken into account.

If the UV cannot reasonably be determined on this basis, it is calculated as a percentage of the value of the land as if it has been developed to a fair district standard, but not including buildings. This percentage is described (where it applies) by Valuer General from year to year.

- Exceptions

There are certain exceptions to the above for which the Valuation of Land Act 1978 provides statutory valuation calculations for UV based on formula, for example a fixed rate per hectare, or a multiple of the annual rent.

These exceptions include: mining tenements, leases under the Land Administration Act 1997 for the purpose of grazing, leases under agreement acts, and land held under the Conservation and Land Management Act 1984.

- UV Valuation Methodology

Market based UV's are determined by reference to the land market at the date of valuation. All sales relevant to the predetermined date of valuation are investigated and where considered necessary, the parties interviewed.

Unsuitable sales, for example between related parties, or those with special circumstances, are discarded. By this process fair and reasonable criterion is established for the fixing of values.

### Gross Rental Values (GRV's)

The primary definition of GRV under the Valuation of Land Act 1978 is as follows:

- GRV

Means the gross annual rental that the land might reasonably be expected to realise if let on a tenancy from year to year, upon condition that the landlord is liable for all rates, taxes and other charges thereon, and the insurance and other outgoings necessary to maintain the value of the land.

A GRV is determined on the basis that the rental includes outgoings such as rates and other property expenses.

As most commercial rentals are negotiated net of outgoings, these need to be added to the net rental to equate to the statutory definition.

The introduction of the goods and services tax (GST) has impacted on the determination of GRV. Where property rental payments are subject to GST, they represent a tax payable by the property owner, and as such must be included in the Gross Rental Value.

Where an annual rental cannot reasonably be determined, then the GRV shall be the assessed value. Assessed value is defined in the Valuation of Land Act 1978 as set percentage of capital value, currently fixed by regulation at 5%.

For example, vacant rental land for which no rental value can be determined is currently valued on the basis of 5% of its total capital value. Capital Value is defined as the capital amount from which an estate of fee simple, in the land might reasonably be expected to realise upon sale, provided that where the capital value of land cannot be reasonably determined on such basis, the capital value of such land shall be the sum of first, the unimproved value of the land and secondly the estimated replacement cost of improvements to the land.

Land used for residential purpose only must be valued on the basis of rental value. Any other land with a relatively low rental value in comparison to its capital value may be valued as if it were vacant land.

-GRV Valuation Methodology

A data base of rental evidence is assembled from information obtained from property managers, owners, and other sources.

A schedule of properties rented at the date of valuation is prepared for the area to be valued.

The rented properties are inspected the rent analysed (for example deductions for furniture include in the letting).

Unsuitable lettings, such as those between related parties, are discarded so that the final list is acceptable as the basis for the determination of fair gross rentals, as illustrated by actual market dealings.

From the analysis of actual rentals, the fair gross rental of each property is established, after making allowances for any special features or detriments.

The GRV normally represents the annual equivalent of fair weekly rental. For instance a GRV of \$10,400 represents a weekly rental of \$200.

## LOCAL GOVERNMENT ACT 1995 – RATING PROVISIONS

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

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

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

## DIFFERENTIAL RATES

### 6.33. Differential general rates

- (1) A local government may impose differential general rates according to any, or a combination, of the following characteristics —
  - (a) the purpose for which the land is zoned, whether or not under a local planning scheme or improvement scheme in force under the *Planning and Development Act 2005*; or
  - (b) a purpose for which the land is held or used as determined by the local government; or
  - (c) whether or not the land is vacant land; or
  - (d) any other characteristic or combination of characteristics prescribed.
- (2) Regulations may —
  - (a) specify the characteristics under subsection (1) which a local government is to use; or
  - (b) limit the characteristics under subsection (1) which a local government is permitted to use.
- (3) In imposing a differential general rate a local government is not to, without the approval of the Minister, impose a differential general rate which is more than twice the lowest differential general rate imposed by it.
- (4) If during a financial year, the characteristics of any land which form the basis for the imposition of a differential general rate have changed, the local government is not to, on account of that change, amend the assessment of rates payable on that land in respect of that financial year but this subsection does not apply in any case where section 6.40(1)(a) applies.

- (5) A differential general rate that a local government purported to impose under this Act before the *Local Government Amendment Act 2009* section 39(1)(a) came into operation is to be taken to have been as valid as if the amendment made by that paragraph had been made before the purported imposition of that rate.

## MINIMUM RATES

### 6.35. Minimum payment

- (1) Subject to this section, a local government may impose on any rateable land in its district a minimum payment which is greater than the general rate which would otherwise be payable on that land.
- (2) A minimum payment is to be a general minimum but, subject to subsection (3), a lesser minimum may be imposed in respect of any portion of the district.
- (3) In applying subsection (2) the local government is to ensure the general minimum is imposed on not less than —
- (a) 50% of the total number of separately rated properties in the district; or
  - (b) 50% of the number of properties in each category referred to in subsection (6), on which a minimum payment is imposed.
- (4) A minimum payment is not to be imposed on more than the prescribed percentage of —
- (a) the number of separately rated properties in the district; or
  - (b) the number of properties in each category referred to in subsection (6), unless the general minimum does not exceed the prescribed amount.
- (5) If a local government imposes a differential general rate on any land on the basis that the land is vacant land it may, with the approval of the Minister, impose a minimum payment in a manner that does not comply with subsections (2), (3) and (4) for that land.
- (6) For the purposes of this section a minimum payment is to be applied separately, in accordance with the principles set forth in subsections (2), (3) and (4) in respect of each of the following categories —
- (a) to land rated on gross rental value; and
  - (b) to land rated on unimproved value; and
  - (c) to each differential rating category where a differential general rate is imposed.

## DIFFERENTIAL RATING -WESTERN AUSTRALIA

Section 6.33 of the local Government Act 1995 allows local governments to impose differential general rates to shift the revenue raising effort to certain sectors of the community to maintain equity based on the level of services provided by Shire. Local Governments could rate the following land uses, or a combination of zoning/locality, and land use:

- Residential
- Commercial
- Industrial
- Rural
- Vacant land
- Other

Changing to differential land use rating would allow local governments to offer different rates in the dollar to the above groups.

## DIFFERENTIAL RATING – SHIRE OF MOUNT MAGNET

### Rating Category Classifications

The shire currently uses a differential rating model based on the differential categories outlined in the table below:-

RATING CATEGORY	TOWN PLANNING SCHEME ZONING/LAND USE
GRV - Urban	Residential Zone
GRV - Boogardie & Lennonville	Residential Zone
GRV - Single Persons Quarters	Predominate use for Special Use Zone
GRV – Commercial	Predominate use for Commercial Zone
GRV – Industrial	Predominate use for Light Industry and General Industry Zones
UV – Rural/Pastoral	Predominate use for Rural Zone
UV – Gold Mining/Mining	Predominate use for Mining Zone
UV – Exploration & Prospecting	Predominate use for Mining Zone

### Differential Rating Categories Objectives and Reasons

The shire has adopted the following objectives and reasons for the differential rating categories:-

#### Gross Rental Value (GRV)

- **Urban** - The Urban Rate is determined to ensure provision of adequate services to residential properties including road access, recreational and cultural facilities.

The Urban Minimum Rate is determined to ensure a reasonable minimum contribution to services to residential properties such as road access, provision of recreational and cultural facilities.

This category is considered by Council to be the base rate by which all other GRV properties are assessed and have a different demand and requirement on shire services and infrastructure.

Proposed rate in the dollar:	10.4177 cents
Minimum rate:	\$425
Number rateable assessments 16/17:	298
Number rateable assessments 17/18:	291
Average rate per assessment 16/17:	\$655
Average rate per assessment 17/18:	\$685
Average valuation 16/17:	\$5,835
Average valuation 17/18:	\$6,039
Average percentage change in valuation:	3.5%

- **Boogardie and Lennonville** – The Boogardie and Lennonville Minimum Rate is determined to ensure a reasonable minimum contribution to community services.

Proposed rate in the dollar:	10.4177 cents
Minimum rate:	\$142
Number rateable assessments 16/17:	6
Number rateable assessments 17/18:	6
Average rate per assessment 16/17:	\$138
Average rate per assessment 17/18:	\$142
Average valuation 16/17:	\$20
Average valuation 17/18:	\$20
Average percentage change in valuation:	0%

- **Single Persons Quarters** - The Single Persons Quarters Rate is determined on the basis of ensuring an adequate minimum contribution to community facilities of a cultural and recreational nature used by occupants.

The Single Persons Quarters Minimum Rate is determined on the basis of ensuring an adequate minimum contribution to community facilities of a cultural and recreational nature used by occupants.

Proposed rate in the dollar:	19.0289 cents
Minimum rate:	\$798
Number rateable assessments 16/17:	7
Number rateable assessments 17/18:	7
Average rate per assessment 16/17:	\$8,474
Average rate per assessment 17/18:	\$7,866
Average valuation 16/17:	\$45,270
Average valuation 17/18:	\$40,738
Average percentage change in valuation:	-10.01%

- **Commercial** - The Commercial Rate which is 14% higher than the Urban Rate is intended to reflect the higher level of service provided to businesses in the Main Business Area in particular regular street cleaning and rubbish removal.

The Commercial Minimum Rate is 14% higher than the Urban Minimum Rate is determined on the basis of making a reasonable minimum contribution to additional services.

Proposed rate in the dollar:	11.8986 cents
Minimum rate:	\$486
Number rateable assessments 16/17:	18
Number rateable assessments 17/18:	18
Average rate per assessment 16/17:	\$3,727
Average rate per assessment 17/18:	\$3,838
Average valuation 16/17:	\$31,630
Average valuation 17/18:	\$31,630
Average percentage change in valuation:	0%

- **Industrial** - The Industrial Rate which is 14% higher than the Urban Rate in intended to reflect the higher level of service provided to businesses in the Industrial Area in particular the provision of road access to large road trains including triple and double road trains as well as heavy vehicles.

The Industrial Minimum Rate is 14% higher than the Urban Minimum Rate is determined on the basis of making a reasonable minimum contribution to additional services.

Proposed rate in the dollar:	11.8986 cents
Minimum rate:	\$486
Number rateable assessment 16/17:	28
Number rateable assessment 17/18:	28
Average rate per assessment 16/17:	\$937
Average rate per assessment 17/18:	\$966
Average valuation 16/17:	\$7,656
Average valuation 17/18:	\$7,671
Average percentage change in valuation:	0%

## Unimproved Value (UV)

- **Rural/Pastoral** - The Rural/Pastoral Rate is determined to ensure a contribution to services provided to pastoral properties such as roads, recreation and cultural facilities whilst taking into account the non viable nature of the pastoral industry resulting from prolonged drought problems caused by wild dogs attacking stock and the closure of live export markets.

The Rural/Pastoral Minimum Rate is determined to ensure a reasonable minimum contribution to the services to pastoral properties such as road access provision of recreational and cultural facilities.

Proposed rate in the dollar:	6.8969 cents
Minimum rate:	\$425
Number rateable assessments 16/17:	20
Number rateable assessments 17/18:	20
Average rate per assessment 16/17:	\$2,027
Average rate per assessment 17/18:	\$2,087
Average valuation 16/17:	\$29,968
Average valuation 17/18:	\$29,968
Average percentage change in valuation:	0%

- **Mining, Exploration, Prospecting & Gold Mining Tenements** - The Mining Rate imposed is comparable with other Shires in the region and is set to provide sufficient income to fund road and other infrastructure maintenance resulting from mine related activity.

The Mining Minimum Rate is set to provide an adequate minimum contribution to fund road and other infrastructure maintenance resulting from mine related activity.

The table below details the rate in the dollar and minimum imposed by the Shire in the 2016-17 financial year for each differential rating category and compares them against other surrounding Local Governments.

Proposed rate in the dollar:	32.2245 cents
Minimum rate:	\$482
Number rateable assessments 16/17:	266
Number rateable assessments 17/18:	298
Average rate per assessment 16/17:	\$3,095
Average rate per assessment 17/18:	\$3,007
Average valuation 16/17:	\$9,639
Average valuation 17/18:	\$9,057
Average percentage change in valuation:	-6.04%