



# SHIRE OF YALGOO

## RATING METHODOLOGY AND ITS DIFFERENTIAL RATING MODEL

FOR  
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 633 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 YALGOO

### 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-Town Improved	Residential zoning Commercial zoning Industrial zoning
GRV- Town Vacant Land	Industrial zoning Residential zoning Commercial zoning
UV - Pastoral/Rural	Predominate use for pastoral/rural purposes
UV – Mining / Mining Tenements	Predominate use for mining purposes
UV – Exploration and Prospecting	Predominate use for exploration and prospecting purposes

### Differential Rating Categories Objects and Reasons

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

#### **Gross Rental Value (GRV)**

- Town Improved- consists of properties located within the townsite boundaries with a predominate residential, commercial and industrial use. 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:	7.45464 cents
Minimum rate:	\$270
Number rateable assessment 16/17:	37
Number rateable assessment 17/18:	37
Average rate per assessment 16/176:	\$562
Average rate per assessment 17/18:	\$562
Average valuation 16/17:	\$7,360
Average valuation 17/18:	\$7,294
Average percentage change in valuation:	- 0.09%

- Townsite Vacant – Consists of vacant properties located within the townsite boundaries that are vacant (no residential commercial or industrial structures built on the land) The rate in the dollar is the same as the Town Improved category however the minimum rate is higher in order to encourage landowners to undertake development.

Proposed rate in the dollar:	7.45464 cents
Minimum rate:	\$620
Minimum of rateable assessments 16/17:	11
Minimum of rateable assessments 17/18:	10
Average rate per assessment 16/17:	\$620
Average rate per assessment 17/18:	\$620
Average valuation 16/17:	\$141
Average valuation 17/18:	\$124
Average percentage change in valuation	- 12.05%

#### **Unimproved Value (UV)**

- Pastoral/Rural- this rating applies to all pastoral leases and land with a predominate rural land use. The proposed rate is comparatively lower when compared to the mining/mining tenement and exploration / prospecting categories on the basis that the pastoral industry has minimum impact or requirement on the shire services and infrastructure.

Proposed rate in the dollar:	6.575168 cents
Minimum rate:	\$270
Minimum of rateable assessments 16/17:	27
Minimum of rateable assessments 17/18:	28
Average rate per assessment 16/17:	\$2,139
Average rate per assessment 17/18:	\$2,078
Average valuation 16/17:	\$32,097
Average valuation 17/18:	\$31,037
Average percentage change in valuation	- 3.30%

- Mining/ Mining Tenement- this category applies to all mining leases located within the shire. The proposed rate is comparatively higher when compared to the pastoral/rural category on the basis that mining operations require additional ongoing maintenance of the roads network that services this land use along with additional costs associated with the administration of mining tenements.

Proposed rate in the dollar:	37.43025 cents
Minimum rate:	\$270
Minimum of rateable assessments 16/17:	155
Minimum of rateable assessments 17/18:	154
Average rate per assessment 16/17:	\$9,454
Average rate per assessment 17/18:	\$9,490
Average valuation 16/17:	\$25,232
Average valuation 17/18:	\$25,329
Average percentage change in valuation -	0.04%

- Exploration / Prospecting – This rating category applies to exploration, prospecting and other general purpose leases located within the shire. The proposed rate is comparatively higher when compared to the pastoral/rural category and lower than the mining tenement category on the basis that the mining operations require additional and ongoing maintenance of the road network that services the land use, the additional cost associated with the administration of exploration and prospecting leases and the shire wishes to encourage exploration.

Proposed rate in the dollar:	19.88253 cents
Minimum rate:	\$270
Minimum of rateable assessments 16/17:	158
Minimum of rateable assessments 17/18:	190
Average rate per assessment 16/17:	\$1,012
Average rate per assessment 17/18:	\$961
Average valuation 16/17:	\$4,857
Average valuation 17/18:	\$4,581
Average percentage change in valuation:	-5.68%