Shire of Denmark Rating Review 2020

Recommendation Paper

General information

Shire rates in WA are broken into two main categories as determined by the State Government Statutory Authority, Landgate. These are **UV (Unimproved Value)** and **GRV (Gross Rental Value)** categories. Within these categories the Valuer General determines values on individual properties.

UV applies essentially to farmland or privately-owned uncultivated land. This land is rated on the basis of its unimproved value. No improvements (e.g. houses, sheds, orchards, vineyards etc.) are taken into account when determining what this land is worth (its value).

GRV applies to all land which is used predominantly for non-rural uses and can include housing, commerce, shops, factories etc. This land is valued on the basis of what the Valuer General believes it could rent for. Accordingly, a vacant piece of residential land gets a low value, whereas a block with a house on its gets a higher value and a block with a group of apartments receives a higher value again. Commercial properties are valued in the same way, so a supermarket would pay more rent (and hence have a higher valuation) than a small corner shop.

As UV valuations are based on what a parcel of land would be worth if sold and GRV valuations are based on a yearly rental value, the values for properties in these different classes are very different and Councils apply a different 'rate in the dollar' to rate them.

For example, a house with a rental value of $15,000 (would earn $15,000 a year if rented out) may be rated at ten cents in the dollar ($15,000 x $0.10) which means it would pay $1,500 in rates each year. A piece of farm land valued at $400,000 may be rated at 0.005 cents in the dollar and would pay ($400,000 x $0.005) $2,000 in rates each year.

Minimum Rates

Councils also set minimum rates. This is the lowest amount anyone will pay in rates for their property regardless of its value. For example, a vacant residential block may receive a GRV from the Valuer General of $3,000 because there is no house there to rent. This would equate to a rates bill of $300 based on ten cents in the dollar. However, Council may set a minimum rate for residential properties of $1,000 which would result in the property owners paying $1,000 in rates each year despite the low valuation. Minimum payments are introduced by Councils to ensure that anyone who can 'afford' to own land in a Shire, contributes a reasonable amount to the cost of infrastructure and services that are made available to the community each year.

Sub-classes

Within either GRV or UV rating classes, Councils can choose to create sub-classes of properties and proportion them at different rates in the dollar. For example, in many Shires commercial properties such as shops and industrial area properties pay a higher rate in the dollar than residential properties (e.g. (twelve cents in the dollar compared to ten).

In some Shires where there is substantial non-farm activity (e.g. chalets or wineries) on UV properties, sub-classes of UV properties are created to capture these uses and these properties are rated at a higher rate in the dollar than the general UV class.

Stage 1 – Submissions close Wednesday, 3 June 2020

The first stage of the review looks at reducing the number of rating categories in the Shire of Denmark from fourteen to four.

With the advice of accountants and lawyers specialising in Local Government, the Shire of Denmark has reviewed the current rating system in relation to the Local Government Act and in particular the requirement that the Shire's rating system is consistent with the following objectives:

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

A number of recommendations were provided to Council to improve the Shire's rating system, including the following:

- Aligning the rating structure to the fundamental principles of rating;
- Simplifying the differential rating categories by reducing the number of differential rates;
- Clearly defining the characteristics of each differential rate so there is no ambiguity;
- Clearly articulating the objects and reasons for each differential rating category;
- Observing and pursuing a rating structure that meets legislative compliance without the need for ministerial approval;
- Reviewing the basis of valuation of properties with a mixed use.

Further information regarding the reviews undertaken so far is provided in the Council Item from the Minutes of the Ordinary Meeting of April 2020.

Recommended Rating Model

Council has come to the conclusion that a simpler system would better meet the objectives of the Local Government Act and in particular would provide better transparency and fairness for ratepayers as well as substantially aid administrative efficiency.

The following table and subsequent explanations set out Councils proposal. Please note that categories and rates in the dollar are not set and are still subject to change based on revaluations and / or feedback.

Existing Category	Existing Rate in the dollar	Existing Minimum Payment		Recommended Category	Indicative Rate in the dollar	Indicative Minimum Payment
GRV						
Residential Developed	9.6428	$1,097				
Business/Commercial Developed	10.3483	$1,220	→	GRV General	9.6428	$ 1,097
Lifestyle Developed	9.6735	$1,125				
Rural Developed	10.3791	$1,125				

Existing Category	Existing Rate in the dollar	Existing Minimum Payment		Recommended Category	Indicative Rate in the dollar	Indicative Minimum Payment
GRV						
Holiday Use Developed	10.7881	$1,208	→	GRV Holiday Use (Tourism)	10.7881	$ 1,097
GRV						
Residential Vacant	19.2243	$997	→	GRV Vacant	17.9000	$ 1,097
Business/Commercial Vacant	14.6228	$950				
Rural Vacant	14.6228	$1,109				
Lifestyle Vacant	18.2017	$1,020				
UV						
UV Base	0.4857	$1,343	→	UV	0.4857	$1,343
UV Additional Use 1	0.5343	$1,477				
UV Additional Use 2	0.5829	$1,611				
UV Additional Use 3	0.6315	$1,745				
UV Additional Use 4	0.6800	$1,879				

The Shire's existing model (left side) sets different rates in the dollar for numerous categories, whereas the recommended model (right side) considers that (apart from two special cases) the valuation undertaken by the Valuer General should be the primary means of differentiating how much is paid in rates, rather than a subjective assessment of Council.

The recommended model is based on the premise that if the Valuer General determines Property X is worth more than Property Y, then Property X will pay more in rates regardless of whether the property is residential or commercial. The argument that a shop or other commercial premise should pay more (or less) in rates when it has the same rental value as a house does not seem equitable. Should market conditions cause a change in rents for either houses or commercial premises (up or down), relative values of rates will follow once the Valuer General revalues properties.

Special Case 1 – GRV Vacant land

The recommendation proposes that vacant land is one of two special cases that justify a higher rate in the dollar being charged. In the case of vacant land, Council wishes to discourage people from buying land and simply holding it (land-banking) for the purposes of future capital gains. Council wishes to see development occur on vacant land as soon as reasonably possible. This is for a number of reasons, including the desire to stimulate the local economy through development and ensure there is adequate housing supply for Denmark residents.

As a disincentive to land-bank, rates in the dollar are set much higher for vacant land, be it residential or commercial. It should be noted that because of the extremely low valuations often given to vacant residential land, the minimum rate will often apply to this land even with the higher rate in the dollar. It is generally only larger parcels of land which will have a higher rates burden associated with this proposal. Higher rates in the dollar for vacant land is a feature of both the current and proposed rates model. In the proposed model, the rate in the dollar is standardised.

Special Case 2 – GRV Holiday Use (Tourism)

The recommendation also proposes that small-scale tourist accommodation receive a higher rate in the dollar. The increased rate is designed to be applied to all small-scale tourist accommodation such as Airbnb's, chalets and the like. It is not intended to capture caravan parks, motels or other commercial-scale accommodation providers which have their rental values assessed on a commercial basis. This recommendation is based on the following three principals:

1. The way these properties are valued. The Valuer General values these properties as if they are normal residential dwellings with associated permanent yearly rental values, however as short-term rentals these properties have the potential to, and often do, earn substantially higher rental returns per year as holiday accommodation.
2. The higher rate in the dollar is to recoup some of the extra costs related to tourism, such as maintenance on BBQs, toilets and extra collection of public rubbish bins as well as the money which Council provides to support marketing and the tourism sector.
3. Housing availability and affordability. A substantial portion of the rental market services tourism and short-term accommodation, which puts pressure on the long-term rental market for residents within the Shire.

Stage 2 – Commences 2020/21

The second stage of the review will consider split and spot rating, where UV properties are used for multiple purposes (previously categorised as Additional Use).

UV

UV Base	0.4857	$1,343
UV Additional Use 1	0.5343	$1,477
UV Additional Use 2	0.5829	$1,611
UV Additional Use 3	0.6315	$1,745
UV Additional Use 4	0.6800	$1,879

→

UV	0.4857	$1,343

The current rating model has a UV class for farm land and then four Additional Use categories, giving a total of five UV sub-categories. Each of these Additional Use categories add 10% on to the rate in the dollar of base UV. This means that UV Additional Use category 1 is 10% higher than the base rate, Additional Use category 2 is 20% higher than the base rate and so on. These Additional Use categories are designed to capture activities on rural land which are non-rural (such as chalets, wineries, breweries, restaurants etc.). Depending on the number of additional uses occurring on a property (e.g. multiple chalets or chalets and wineries) the property is placed in a progressively higher Additional Use category. This system is designed to capture additional rating value from activities which, if they occurred in town, would be rated more highly under the GRV system, but because UV properties are assessed for value based on their unimproved value (i.e. ignoring any improvements such as houses or restaurants) these additional developments and activities would not be rateable at all without the Additional Use categories.

However, there are some inefficiencies and inequities in this additional-use system. For example, if 3 holiday chalets place a property in Additional Use category 2 then the property owners pay 20% higher rates than if they had no chalets. However, this method ignores the size and value of the whole property. One land-owner may have 3 chalets on 100 acres and therefore pay 20% more rates than would be normal for a 100-acre property, whereas another landowner may have 3 chalets on 500 acres

and so is paying 20% more on a substantially higher rates bill. That is to say they both have 3 chalets but one of them pays much more for the chalets than the other. The other inequity, as mentioned above, is that in either case just given, the rates payable on three chalets are much lower than if someone had three small holiday homes in town.

Split Rating

Split rating is a process whereby when a property is predominantly used for agriculture (and is therefore rated by its unimproved value) but has an area of the property which has a non-agricultural use, such as chalets, a winery or a restaurant, the Shire can identify that area of non-agricultural use and plot it on a map using the Shire's GIS (Geographic Information System). It can then submit this area to the Valuer General to be rated for its predominant use (e.g. Holiday Use Tourism) even though the area remains part of the farming property. In this way, the Shire can rate holiday accommodation (for example) the same, wherever it occurs in the Shire.

Spot Rating

Occasionally in the middle of a UV area there may be a small piece of land which has something other than farming as its predominant use. Historically this land has often still been rated as UV because it was not picked up in earlier mapping. For example, a small service station or shop with an attached house may be located at a rural intersection which has never been moved from UV to GRV. Spot rating is simply the process of the Shire identifying such properties and changing the rating of the whole property from UV to GRV. As the name suggests, they become a 'spot' of different rating in a landscape that is otherwise all the same.

Rationale for the change to Split / Spot Rating

When the Shire's current system was implemented technology was less advanced. If the Shire had wished to identify areas on rural properties for split rating, it would have required a surveyor to physically go out and create plans which would then be submitted for approval. This was a potentially a laborious and expensive process. The Valuer General now accepts GIS files which identify such areas of land for the purposes of valuation. These files can be created efficiently using existing information. This means that creating split-rating areas is now cost effective, with Landgate fees between $200 and $400 (approx.) per property. The Shire considers this a reasonable cost considering the current inequities in the UV additional use category system.

More Information

To find out more about property valuations in Western Australia please visit www0.landgate.wa.gov.au/property-reports/property-valuations.