



## LOCAL GOVERNMENT ACT REVIEW ►► DELIVERING FOR THE COMMUNITY

### SUMMARY DISCUSSION PAPER

### AGILE

# Rates, fees and charges

## Introduction

Local governments impose rates to raise revenue to fund the services and facilities.

The quantum of rates payable is determined by three factors:

1. the method of valuation of the land
2. the valuation of the land; and
3. the rate in the dollar applied to that valuation by the local government.

Each property in Western Australia is assigned a method of valuation which is either the unimproved value or gross rental value. The Local Government Act 1995 (the Act) specifies that a property used for rural purposes is rated as unimproved value (UV) and a property used for non-rural purposes will be rated as gross rental value (GRV). In practical terms, land used predominately for residential purposes is generally classified as GRV.

A review of the method of valuation of land is currently being undertaken by the Valuer General's Office. Once this review is completed and amendments proposed, the relevant provisions in the Act will be examined, in line with any submissions received.

Options for potential reform are discussed below.

## Rating

As part of preparing the budget, each local government must raise enough in rates to cover the shortfall (budget deficiency) between its predetermined expenditure and available revenue. It does this by applying a rate in the dollar to the valuation of each property. Rates can be imposed uniformly (a single rate in the dollar) or differentially (different rates in the dollar for different categories).

## Local government rates and revenue strategy

Local governments are currently required to prepare a long term financial plan that addresses rate increases. In Victoria it is a requirement that local governments have a revenue and rating strategy<sup>1</sup> and in Queensland they must prepare a revenue statement. These require local governments to give due consideration to how they will raise rates and charges and where this burden falls.

An option is to introduce the requirement for local governments to develop a rates and revenue strategy, which could include:

- Rating categories (and potentially how they are determined)
- Rates in the dollar
- The objective of establishing each category and reasons for imposing the rate for each rating category (the 'objects and reasons')

<sup>1</sup> [https://www.localgovernment.vic.gov.au/\\_data/assets/pdf\\_file/0020/48260/LG-Revenue-and-Rating-Strategy.pdf](https://www.localgovernment.vic.gov.au/_data/assets/pdf_file/0020/48260/LG-Revenue-and-Rating-Strategy.pdf)

- Schedule of fees, charges and levies including the methodology (adopted prior to the budget)
- Long term rating strategy

## Public notice

If a local government introduces a rating strategy that uses a uniform rate in the dollar, unlike differential general rates, there is no requirement for public notice to be given.

### What are the options for reform?

A possible reform for public notices is outlined below.

Public notice for all rates
<p>Local governments will be required to:</p> <ul style="list-style-type: none"> <li>▪ give public notice of all rates</li> <li>▪ prepare objects and reasons for the rating strategy</li> <li>▪ provide 21 days for submissions</li> <li>▪ consider each submission at a meeting of council</li> </ul>

## Differential general rates

Differential general rates are generally imposed to ensure that the rate burden is more evenly distributed across ratepayers, with those requiring or using more services being charged a higher rate in the dollar.

### What are the options for reform?

Local governments are currently permitted to impose differential general rates according to land zoning, land use (including if the land is vacant) and a combination of the two.

While the categories must comply with the Act, there is still scope for a variety of rating categories which does not allow comparability across local governments. Possible options for reform are outlined in the table below.

	New South Wales model	Proposed Victorian model
<b>Options</b>	Under this option, differential rate categories would be set in legislation.	Under this option, local governments could increase the types of differential rate categories.
<b>How would it work?</b>	<p>Local governments would have to categorise properties into set categories, for example:</p> <ul style="list-style-type: none"> <li>▪ residential</li> <li>▪ semi-rural</li> <li>▪ commercial/industrial</li> <li>▪ farmland</li> <li>▪ mining</li> <li>▪ exploration and prospecting</li> </ul>	<p>In addition to land zoning or land use (including if the land is vacant), local governments could set categories based on:</p> <ul style="list-style-type: none"> <li>▪ geographic location</li> <li>▪ types of buildings on the land</li> <li>▪ any other criteria council determines is relevant</li> </ul>

# Ministerial approval

Local governments have autonomy in the way they set rates in the dollar to make up the budget deficiency with some limitations. A local government that seeks to impose a rate in the dollar that is more than twice that imposed on the lowest category must seek Ministerial approval. For example, in the unimproved value category, the rate in the dollar for mining might be 30 cents whereas pastoral might be 10 cents. Local governments need to comply with the Rating Policy – Differential Rates when making an application.

## What are the options for reform?

There are several opportunities to reform the controls that are currently in place on differential rating.

	New South Wales model	Proposed Victorian model
Options	The differential could be increased to three or four times the lowest before Ministerial approval is requirement.	The differential could be set to a maximum of four times with no ability to seek Ministerial approval.
Benefits	It reduces regulatory burden on local governments and the department while maintaining some oversight.	It increases fairness between rating categories, especially for the mining sector. It provides greater certainty for local governments.

# Rating of mining licences

Mining tenements include prospecting and exploration licences and mining leases which are granted under the Mining Act 1978. The mining sector argue that due to the negligible impact of prospecting and exploration licences on local government facilities and the fact that they are a right to explore, not a mining business, they should be exempt from paying local government rates.

## What are the options for reform?

Some jurisdictions do provide exploration and prospecting licences an exemption from general rates. In Victoria, amendments are currently being drafted to specify that land used for mining purposes is to be rateable.

The table below outlines possible options for reform.

Status quo	Exemption	Lower rate in the dollar than mining
Prospecting and exploration licences continue to pay rates.	Prospecting and exploration licences are exempt from paying rates.	Local governments must rate exploration and prospecting lower than general mining.

Mining licences have a limited intrinsic value unless minerals are found and mined. As a result, they have a high turnover of ownership. If a licence is terminated or the lessee does not pay rates for the period of the licence, the rates are generally not able to be recovered by the local government. If rates remain unpaid, local governments have the option of lodging a caveat on the land with the Department of Mines, Industry Regulation and Safety. Alternatively, local governments can seek unpaid rates through the court system.

# Rate exemptions

The Act provides that all land is rateable unless it is listed as exempt. Not all land owners are required to pay rates.

Other than land used or held by the Crown (State Government) for a public purpose, a local government or a regional local government, exemptions from rates apply to:

- Land used or held exclusively for churches (religious bodies)
- Land used or held exclusively for schools
- Land used exclusively for charitable purposes
- Land vested in trustees for agriculture or horticultural show purposes
- Land owned by Co-operative Bulk Handling Limited (CBH)
- Land exempted by the Minister for Local Government

## What are the options for reform?

There is an argument that everyone should pay local government rates as everyone uses the services and facilities provided by the local government, from roads to parks and community facilities. In addition, rate exemptions can have a significant impact on the capacity of local governments to raise rate revenue, especially in regional and remote areas. It is then left to the ratepayers to make up the shortfall.

Nevertheless, a number of organisations provide important services within the community with very limited funding. If those organisations are required to pay rates, it may impact on the ability for them to continue to provide those services. This may ultimately cost the local government in having to provide the services in house or alternatively the services to the community are removed or reduced.

Possible options for reforms are outlined in the below table.

Everyone pays rates	Minimum contribution
Every owner of land is required to pay rates.	Every occupier of land has to pay a minimum contribution to the local government.
Local governments could offer concessions to land owners if determined by council.	The capped amount could be the minimum payment set by the local government, or an amount set in legislation.

## Exemptions: charitable organisations

One of the more contentious exemptions is for 'land used exclusively for charitable purposes'. The meaning of 'land used exclusively for charitable purposes' is not defined in the Act and differing interpretations of the meanings of 'charity' and 'charitable purposes' have continued to prove challenging across all levels of government in Australia. None of the approaches result in the satisfaction of all parties and reforms result in winners and losers.

In Western Australia the meaning of what constitutes 'land used exclusively for charitable purposes' has been the subject of several key decisions by the State Administrative Tribunal. These decisions have been a matter of contention for the local government sector as exemptions have been provided to facilities for aged care even when residents are paying market rates for the individual housing within an estate, and to industry associations because they have a training arm.

## What are the options for reform?

Other than requiring everyone to pay rates, reforms to the charitable organisation exemptions hinge on clarifying who is or isn't eligible to receive a rates exemption.

	Commercial not exempt	Qualified under Commonwealth legislation	Land not used as a residence
<b>Options</b>	Exemptions do not apply to commercial (non-charitable) business activities.	Certain categories of ratepayers, for example independent living units, would only be exempt from rates where they qualify under the Commonwealth Aged Care Act 1997.	Clarify that land is not used exclusively for charitable purposes if the land is used as a residence and is exclusively occupied by persons, including a caretaker.

## Fees and charges

Local governments have the ability to set fees and charges for a range of services. Services can be categorised into three areas:

- basic community services, such as waste collection
- additional services, such as providing security
- competitive services, such as services provided by other business in the area (for example gymnasiums)

When setting fees and charges for basic and additional services, local governments should consider the cost of providing the service but may decide to subsidise the service for the common good. When it comes to competitive services, competitive neutrality principles must be observed. This requires local governments to avoid a competitive advantage as a result of being part of the public sector.

## What are the options for reform?

The table below summaries possible amendments.

	Annual rate charges	Cost recovery
<b>Options</b>	Local governments could impose a levy on all ratepayers to fund a particular service, facility or activity that benefits the entire community.	Local governments could set fees at cost recovery.
<b>How would this work?</b>	Local government rates would consist of two components: <ul style="list-style-type: none"> <li>▪ Rate based on valuation</li> <li>▪ Fixed charge for the purpose of planning, carrying out, making available, maintaining or improving any thing</li> </ul>	The cost recovery fee methodology would be outlined in the Rates and Revenue Strategy.

## Have your say

Have your say on these important issues by completing the [survey](#) or emailing [actreview@dlgsc.wa.gov.au](mailto:actreview@dlgsc.wa.gov.au). A [more detailed paper](#) is also available.

