



## Rates Calculations

Recent Local Government rate changes on exploration licences is influenced by policy that is not immediately apparent, nor completely logical, of which you should be aware for budgeting purposes.

On the 9<sup>th</sup> May 2015 the Government announced that to combat the escalating price of local government rates on exploration licences it was amending the *Valuation of Land Act 1978* and changing the method of calculating the Unimproved Value (UV) of the exploration licences, from which the rates are calculated. Lands Minister Terry Redman in his media release, said *"We support fairness and equity and worked as quickly as possible to restore a level playing field for regional shire rates."*

Unfortunately, this change did not take in to account the seemingly arbitrary nature of local shires to apply their own "Differential Rates." Under existing legislation, local governments can charge whatever they like against the UV calculation, so long as the highest rate increase is no more than double the lowest.

The *Valuation of Land Act 1978* requires that when determining the unimproved value of mining, petroleum and geothermal tenements (note that there is no geothermal tenements granted at the moment), the Valuer-General must apply a statutory formula involving a multiplier of the annual rental for the tenements under the relevant Acts.

Previously the UV of an exploration licence was on calculated on rents that increased more than three-fold; \$125.25 per block in the first year to \$500 per block in 8<sup>th</sup> year.

The amending legislation states:

*"unimproved value means ... where any such land is ... an exploration licence ...held under the Mining Act 1978*

*(A) 2.5 times the annual rent payable for the licence under that Act if it is the first year of the term of the licence; or*

*(B) 2.5 times the annual rent that would be payable for the licence under that Act if it were the first year of the term of the licence;*

The complicating factors to interpreting and applying this clause is:

1. the timing of the exploration licence grant dates;
2. what is to be taken as the first years rent because of the CPI increases; and
3. the reduction in the size of exploration licences.

The date of valuation, fixed by the Valuer General, is 1 August each year for the same financial year ending 30 June eg the valuation on 1 August 2015 is for the financial year ending 30 June 2016.

Note that this valuation is before the CPI increase in rents by the DMP in July the following financial year, therefore the rates are based on the previous year's UV. That is, the UV of an exploration licences in force at the 01/7/2015 will be



calculated on rent listed on the fees and charges published by the DMP effective from 01/7/2014 as this would be the rent at the date of valuation.

Exploration licences' rents increase by the CPI each year, the UV is based on the exploration licence's first years rent as from the previous year. The UV is not calculated on the first years rent as it was when the licence was applied for, but on the first years rent as if the licence had been granted in previous year.

We have also been advised by Marion Anderson of the Valuer General's Office that any reduction of exploration licence area (and as such the rents) the UV will be reduced and the relevant Local Government Body will be advised. For example if a licence has been reduced for 10 to 5 blocks:

From the 01/7/2015 the value for Exploration Licences will be only calculated on Year 1 rent

At the 01/7/2015 the UV is calculated at: 10 blocks x 122.1 x 2.5

The area is reduced to 5 blocks on 10 August 2015 it will be calculated at:

5 blocks x 122.1 x 2.5

Last year's rent (between the dates 1/7/2014 to 30/6/2015) for an E's graticular block was	\$122.10.
As of 1/7/2015 the first years rent for an E's graticular block is	\$125.25

There are a few other issues to be aware of from the changed legislation:

1. The 5 times multiplier on petroleum exploration permits and Geothermal Explorations Permits (GEPs) will be abandoned. The GEP rate reductions are pointless as currently there is not one granted.
2. Because the shires will have a reduction in income from changes and surrendered tenements as announced in the news recently, an increase in the rates across the board can be expected.
3. There is always a difficulty of obtaining rating formula from the Shires; and while the *Valuation of Land Act 1978* specifies that these rates must be published, it makes no reference to where they must be published. WA's Department of Mines and Petroleum has a world class data service which records and tracks mining expenditure; surely this would be the obvious place to publish rates changes.
4. The timing of the valuation of the UV in relationship to the DMP's CPI rent increases will cause the Shires to issue interim rates notice, which doubles the work load shires in issuing the rates and for mining companies paying rates. This can be rectified by aligning the valuation date with the date of the rent increases.

If you have any questions please call our team at LandTrack Systems.