## VALUATION OF LAND AMENDMENT BILL 2015

*Second Reading*

Resumed from 26 March.

**HON SUE ELLERY (South Metropolitan — Leader of the Opposition)** [2.46 pm]: This bill amends the Valuation of Land Act 1978. That act sets out the provisions for the valuation of land for use by agencies, including local government, that are authorised to assess rates or taxes on the land. This is another one of those bills that I did not get a briefing on, which was nobody's fault—I am not blaming anybody—but I am now, by virtue of my own research, a gun on valuations. The Valuation of Land Act does a range of things, including giving the Valuer-General the power to maintain valuation rolls of rateable and taxable land throughout WA. Those rolls are periodically provided to rating and taxing authorities. On behalf of the Valuer-General, Landgate conducts valuations and makes interim valuations as required. It makes two kinds of valuations: those for unimproved value and, secondly, those for gross rental value. Those of us who own property in the metropolitan area are responsible for the second one. That is the basis upon which we pay our council rates. Today we are concerned with unimproved value. Unimproved valuations are used by the Office of State Revenue, under the Department of Finance, as a basis to assess land tax. Local governments use them to determine council rates, mainly in rural and fringe urban areas. Unimproved value is defined within the Valuation of Land Act and in certain cases a statutory formula is applied. That statutory formula is at the heart of the reason for the bill before us today. The definition of and the statutory formula for unimproved value can operate within a particular town site and outside a town site, and then there are exceptions. It is those exceptions that this bill goes to. The material produced by Landgate tells us that there are certain exceptions within a town site and without a town site, for which the Valuation of Land Act provides a statutory formula for calculating the unimproved value, such as a fixed rate per hectare or a multiple—a multiplier—of the annual rent. Those exceptions include mining tenements leases under the Land Administration Act, such as for grazing, and land held under the Conservation and Land Management Act. It is that point at which the purpose of this bill arises. The exceptions include mining tenements, for which the statutory formula is a multiplier to the annual rent or annual fee charged, or the tenement, under either the Mining Act or the Petroleum and Geothermal Energy Resources Act.

The second reading speech tells us that the formula under the Mining Act is two-and-a-half times the annual rent payable for the licence. In 2006, when the Department of Mines and Petroleum introduced a new schedule of tiered rents for exploration purposes, it did so for the purposes of trying to provide a disincentive to those landholders who might be holding on to exploration licences without actually doing any exploring, and, indeed, for the sole purpose of stopping others who genuinely may well want to explore and mine from accessing that land. That was a graded series of rents over time.

As set out in the second reading speech, two things happened that had the unintended consequence of the Valuer-General's formula resulting in significantly higher rents. One of them was that change in 2006. When applied to the higher end of the rents, the Valuer-General's statutory formula resulted in higher valuations, which then resulted in higher rates from local government. The second thing that happened was that in 2013, when the Department of Mines and Petroleum increased the fees for petroleum and geothermal exploration permits and drilling reservations, that resulted in an eightfold increase in annual fees in the two years between 2012 and 2014. The intent of this change also included a disincentive to hold on to land without doing anything to it for excessive periods. The consequence on the statutory formula applied by the Valuer-General through that was enormous. That formula on those permits is five times the annual fee payable under the Petroleum and Geothermal Energy Resources Act 1967. Applying the statutory formulas as required, the Valuer-General was then issuing higher and higher values, which resulted in higher and higher rates from local government. This bill introduces a new methodology to allow the Valuer-General to incorporate the formula into the valuation process for the financial year 2015–16 and takes the relativities back to where they were before those two changes. The government has identified this bill as one of the priority bills to try to ensure that that new methodology is applied from the start of the 2015–16 financial year. To address those inequities, section 4 will be amended, which is really the guts of where the changes occur in the bill before us, to change the definition of "unimproved value". The explanatory memorandum states —

> The new paragraph (b)(ii)(II) means that when assessing the unimproved value of exploration licences whether at year one or year eight they will be assessed consistently based on the annual rental that would be payable for the licence as if it was the first year of the term of the licence. This reinstates previous relativities and also restores fairness and equity.

The second paragraph of those amendments —

> … currently requires that the unimproved value of a petroleum production licence or geothermal production licence held under the *Petroleum and Geothermal Energy Resources Act 1967* is based on

> 2.5 times the annual fee payable for the licence or lease under the Act. The new paragraph ... removes the reference to "a petroleum production licence or geothermal production licence" and replaces them with "licence or lease" otherwise the basis of valuation remains the same at 2.5 times the annual fee payable for the licence.
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> Paragraph (b)(ii)(IV) currently requires that the unimproved values of other leases or licences held under the *Mining Act 1978* and exploration permits held under the *Petroleum and Geothermal Energy Resources Act 1967* are based on 5 times the rent that would be payable for the leases, licences or permits ...

The new provisions —

> … separate leases and licences held under the *Mining Act 1978* and exploration permits held under the *Petroleum and Geothermal Energy Resources Act 1967* to provide for the different valuation methodology to apply. New Paragraph ... continues to provide for the unimproved value of a licence or lease held under the *Mining Act 1978* to be 5 times the annual rent payable.
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> New paragraph ... introduces the term "drilling reservations" in addition to "permits" issued under the *Petroleum and Geothermal Energy Resources Act 1967* and provides for the unimproved value of both categories to be the annual fee payable for each under the Act instead of the previous method whereby 5 times the annual fee applied. This remedies the substantial increase in unimproved value that resulted from the eight-fold increase in annual fees.

We are asked to support the bill, and we will, on the basis that it fixes what was an unintended consequence. It is worth putting on the record that we are making sure that we are not creating further unintended consequences. I will ask the Minister for Housing, who is responsible for this bill, what impact, if any, this has on local government and to what extent WALGA was consulted on the provisions of the bill. My understanding from reading the debate in the other place is that it is not anticipated that there will be a negative impact on local government but I would like the minister to assure this house that that is the case, to explain how there will be no negative impact on local government and to advise that WALGA was consulted when putting together the provisions that will now result in different information being provided to local government on which they base their rates.

With those comments, I indicate that we will be supporting the bill. I look forward to hearing the minister's response.

**HON ROBIN CHAPPLE (Mining and Pastoral)** [2.57 pm]: We will be supporting the Valuation of Land Amendment Bill 2015. I have a few queries. Quite clearly, there is a need for this bill because of the unintended impacts on the unimproved values of higher annual rentals and fees for exploration licences issued under the Mining Act 1978 and petroleum and geothermal permits and drilling reservations issued under the Petroleum and Geothermal Energy Resources Act 1967. I note that it was only throughout the latter part of 2014 that Landgate started receiving complaints about the unfairness of the unimproved values. Other members in this place might remember the debate we had in this chamber in about 2004 under the former government. We dealt with the increase in rentals. The idea of the increase in rentals was to inhibit exploration licence holders from holding on to tenements forever and a day. If I remember rightly, the rental amount went up every five years and then at the end of 15 years, if they had not done anything with that exploration lease, they had to show due cause why they continued to hold it. I think it was a good piece of legislation but obviously there was an unintended consequence. I find it interesting that it did not become apparent to Landgate until about 2014. It seems the reason for that is that was when we changed the Petroleum and Geothermal Act 1967 to reflect different rates of tenement. The Valuation of Land Act 1978 requires that, when determining the unimproved value of mining, petroleum and geothermal tenements, the Valuer-General must apply a statutory formula involving a multiplier of annual rental or annual fees payable for the tenements under the relevant act. This has been the case since 1995. For most of the period since then, it has provided fair and consistent unimproved values that are maintained relative to the different classes of tenements.

For exploration licences held under the Mining Act 1978, the unimproved value is required to be two and a half times the annual rent payable for the licence. In 2006, the Department of Mines and Petroleum introduced the new schedule, which I think we debated in 2004–05, into the schedule of tiered rents for exploration licences that meant that, by the eighth year of the term of the licence, the annual rents had increased more than threefold. It was an unintended consequence that these increased rents should flow through into the unimproved values and, ultimately, into council rates in 2014. Throughout the latter part of 2014, Landgate received complaints about the unfairness of the unimproved values and the increasing distortion between exploration licences and mining leases. I thank the Landgate officers who came and briefed me on this bill. It was a very forthright and frank discussion. I also thank the minister for having provided those Landgate officers to give me that briefing. It explained a lot.

This was then compounded by the Department of Mines and Petroleum's introduction in 2013 of increased fees for petroleum and geothermal exploration permits and drilling reservations, which resulted in annual fees increasing eightfold between 2012 and 2014. I will be interested to know whether that is what prompted the concerns, or whether concerns had been raised previously in relation to exploration tenements. One can imagine that that might create a significant fiscal problem for a person who was holding big tenement areas and geothermal leases or petroleum leases. It is interesting that not a lot of concern was raised by the mining industry. However, when the larger tenements became subject to this process, some complaints did come in.

The increase in fees was to reflect cost recovery principles. It was also to act as a disincentive to hold ground for exploration purposes for excessive periods. I am glad that we have not done anything to remove that, because it has certainly been a good process. I have always been supportive of the principle of use it or lose it. The increased rents over time actually put more pressure on the holders of petroleum, geothermal and exploration tenements under the Mines Act to ensure that they used that ground; and, if they could not use that ground, that it was released back into the conventional market. However, we have obviously had these unintended consequences.

The Valuation of Land Act 1978 requires that the unimproved values of these permits and drilling reservations be based on five times the annual fee payable under the act. It is an unintended consequence that these increased rents should flow through into the unimproved values for rating purposes. Again, I will take a lead from the Leader of the Opposition and say that it would be really important to know from the minister how the Western Australian Local Government Association was involved in the discussions around this matter, and, indeed, how local government feels about these amendments, and whether it is confident that the equalisation that is being sought in this amendment bill will flow to local government in a way that will not disadvantage it.

The Valuation of Land Amendment Bill 2005 will implement changes to the statutory formulas that apply to the determination of unimproved value of exploration licences, permits and drilling reservations. The amendment will mean that the relativities that existed only a few years ago between the unimproved values of land held for the riskier purpose of exploration, and land held for minerals, petroleum and geothermal production, will be reinstated. Importantly, this will also mean that equity and fairness in the valuation model is restored.

My only real concern about this bill was to ensure that local government is absolutely satisfied with where we are going with this. Fees for petroleum and geothermal exploration permits will be calculated based on the annual fee payable for that permit, rather than applying a multiplier of five. That will enable permit holders to avoid the escalating rental amounts that come into effect in later years. It is argued that this will greatly ease the concerns of the mining industry, in particular small miners and prospectors. I suppose that is where I have my greatest concern. Although the big end of town can mostly handle the costs—certainly prospectors—the smaller end of town is unfairly disadvantaged in this process.

So, in essence, the Greens will be supporting this legislation. I will await the minister's response before deciding whether there is any need to go into committee on this bill. I put on the record that we think this bill fixes up a bit of an unintended consequence in a piece of legislation that, when it passed through this chamber, all sides supported.

**HON COL HOLT (South West — Minister for Housing)** [3.05 pm] — in reply: I thank honourable members for indicating their support for the Valuation of Land Amendment Bill 2015. We will be going committee on this bill, because I have placed an amendment on the supplementary notice paper. The need for this amendment was picked up during the debate in the other house. I thank the members of the other house for highlighting that change, and we will get to that in due course.

I will now answer some of the questions raised around the impacts of this bill on local government, and about consultation with the Western Australian Local Government Association. Councils will receive new valuation models containing the amended unimproved values each year, and they will get them early in 2015 so that they can set their rating appropriately. Obviously these change from year to year as new rolls come out. Unimproved value–based rolls are issued every year, and they change every year with different land classes increasing or decreasing depending on changes in the land market. So, councils are often dealing with a change in their underlying unimproved value rates anyway. Therefore, local governments use a differential rating system to manage these changes when they apply them to their budgets and their rate notices. It is expected that councils will still collect the same revenue by adjusting the differential rate that they apply, once they have their unimproved value–based rolls.

The Western Australian Local Government Association was consulted and is happy with these changes. The reason that the feedback and the issues and concerns were raised in 2013–14 is that Landgate was unaware of the exploration licence rent increases until 2012. This was due to the fact that valuation system changes were required in Landgate's own software to manage those increases, and, as a result, it could not introduce the amended values until 2013–14. I think if we map it back to the time when that bill was debated in this place, it was introduced in 2006, and the major changes came in eight years later, so it would have been 2013–14 when they first appeared in the unimproved valuations.

**Hon Robin Chapple**: They were around in 2004–05 when we actually dealt with the —

**Hon COL HOLT**: I will check on it for the member. But my understanding is that 2006 is when the changes —

**Hon Robin Chapple**: I was here. I was not here in 2006 when it was debated.

**Hon COL HOLT**: I understand that. I am just saying when the changes came in. It might have been in 2006, depending on —

**Hon Robin Chapple**: The debate was earlier.

**Hon COL HOLT**: The debate was probably earlier, when the member was here, but 2006 is when they came in.

I think I have answered the questions asked by the Leader of the Opposition and Hon Robin Chapple, and I commend the bill to the house.

Question put and passed.

Bill read a second time.

*Committee*

The Chair of Committees (Hon Adele Farina) in the chair; Hon Col Holt (Minister for Housing) in charge of the bill.

**Clauses 1 to 3 put and passed.**

**Clause 4: Section 4 amended —**

**Hon COL HOLT**: I move —

Page 3, line 29 to page 4, line 4 — To delete the lines and insert —

(2) In section 4(1) in the definition of ***unimproved value*** after paragraph (b)(ii)(I) insert:

or

**Hon SUE ELLERY**: I understand the reason for this, but I think it would be helpful for the chamber if the minister would put this amendment in some context so members know what they are being asked to vote for.

**Hon COL HOLT**: My understanding is that there was a slight drafting error in the bill when it was presented to the other place. The consequence of that slight drafting error was that we actually finished with an "or" and an "or". We needed to remove a couple of "or"s before subsection(ii)(I)(A) in the original act —

(A) 5 times the annual rent per hectare for the first 1 000 h or part thereof;

We had to remove that "or". Also —

(B) 2.5 times the annual rent per hectare for the next 9 000 h or part thereof;

We had to remove that "or" from the bill and then insert it at the end of that subsection.

**Amendment put and passed.**

**Clause, as amended, put and passed.**

**Title put and passed.**

**Bill reported, with an amendment.**