



Council Rate Cap Compliance 2018-19

Compliance Report

12 December 2018



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Introduction

We monitor and report on council compliance with the rate caps under the Fair Go Rates system (see appendix A and B for more information).

In this paper, we report on whether each council, in setting its rates for 2018-19, was compliant with the average rate cap or higher cap (if applicable). We also report on the introduction of new waste service charges for 2018-19.

The structure of this report is as follows:

- Compliance with the rate caps
- Council statements of explanation
- New waste charges
- Next steps.

Compliance with the rate caps for 2018-19

Most councils were compliant with the rate caps

The Minister for Local Government set the average rate cap at 2.25 per cent for the 2018-19 rating year. All councils were required to comply with the average rate cap with the exception of four councils. These councils were required to comply with a higher cap (which we approved):^{1,2}

- Monash City Council: 2.57 per cent
- Pyrenees Shire Council: 3.50 per cent
- Towong Shire Council: 5.55 per cent
- West Wimmera Shire Council: 3.50 per cent.

Based on the data councils provided to us in their annual compliance information for 2018-19:

- Seventy-five councils were compliant with the average rate cap or higher cap (appendix C)
- Three councils were immaterially non-compliant with the average rate cap (table 1)
- One council was materially non-compliant with the average rate cap (table 2).

We gave councils an opportunity to explain why they were non-compliant with the rate cap for 2018-19. Their statements are shown in the next chapter.

We note that we have not independently verified the data on which the calculations of the base average rate and capped average rate have been made. We relied on the data provided by each council (certified by the council's chief executive officer).

Table 1 Immaterially non-compliant councils

Council	Average rate cap	Average rate increase	Impact on average ratepayer in 2018-19
Corangamite Shire Council	2.25%	2.26%	\$0.21
Hobsons Bay City Council	2.25%	2.28%	\$0.75
Swan Hill Rural City Council	2.25%	2.30%	\$0.91

¹ We approved the higher cap for Pyrenees Shire Council in May 2017, the higher caps for Towong Shire Council and West Wimmera Shire Council in July 2017, and the higher cap for Monash City Council in June 2018.

² The approved higher caps include the minister's rate cap.

Table 2 Materially non-compliant council

Council	Average rate cap	Average rate increase	Impact on average ratepayer in 2018-19
Yarriambiack Shire Council	2.25%	2.57%	\$5.04

Some councils adjusted rates in the dollar after adopting their budgets

A property's general rates are calculated by multiplying the valuation of the property by the rate in the dollar.³ If a council decreases its rate in the dollar, it decreases its general rates revenue and average rates.

Some councils decreased their rates in the dollar after adopting their budgets for 2018-19 to ensure they were compliant with the rate cap.^{4,5} Some councils did this in July or August before issuing rate notices to their ratepayers, while others did this in October or November after issuing rate notices to their ratepayers (and after submitting the annual compliance information for 2018-19 to us). These councils would have been non-compliant if they had not decreased their rates in the dollar.

Councils should have systems and processes in place to identify potential non-compliance with the rate cap and adjust their rates in the dollar (if appropriate) as early as possible to minimise confusion and cost for ratepayers.

³ The rate in the dollar is calculated by dividing the total general rates revenue by the total value of all rateable properties.

⁴ One council decreased its municipal charge. If a council decreases its municipal charge, it decreases its municipal charge revenue and average rates.

⁵ Readers can contact their council for more information on their rates in the dollar.

Changes in individual rate notices may be different from the rate cap

A council can comply with the rate cap even if individual ratepayers experience increases in rate notices that are higher than the rate cap.

The total amount shown on an individual rate notice includes general rates, municipal charges, and other charges and levies. Changes in individual rate notices may be different from the rate cap for these reasons:

- The value of a property may increase or decrease relative to other properties in the municipality.
- Different rates in the dollar ('differential rates') may apply depending on whether a property is classified as residential, commercial, industrial or rural. If the classification of a property changes, the differential rate that applies to that property may change.
- Other charges and levies that are not included in the rate cap, such as waste charges, may increase or decrease. The rate cap applies to general rates and municipal charges only.

Council statements of explanation

As part of our compliance monitoring and reporting, we give councils an opportunity to explain why they were non-compliant. Statements from councils that were non-compliant with the rate cap for 2018-19 are shown below. For more information on these statements, readers should contact their council.

Immaterially non-compliant councils

Corangamite Shire Council's statement of explanation

Council's average rate increase for 2018-19, following completion of the commission's annual compliance reconciliation, is 2.26%. This is 0.01% higher than the rate cap of 2.25% set by the Minister for Local Government in December 2017.

This 'immaterial non-compliance' was due to late valuation amendments received after the rate in the dollar had been set and publicly advertised in the 2018-19 draft budget. The budget was subsequently adopted by Council in June 2018.

The late valuation amendments were a net consequence of:

- Supplementary valuations as a result of the March 2018 South West Complex Fire event reducing the 2016 capital improved value of affected properties.
- Timing associated with completion of the 2018 general valuation, including an amendment resulting in a minor increase in total capital improved value.

The consequence of these amendments represents an average impact of 21 cents per assessment (under \$2,000 in total). Council determined it was not cost effective to correct this small impact.

Council has reviewed its internal processes to ensure the commission's annual compliance reconciliation is completed prior to issuing future rate notices and budgets amended, if necessary, to ensure Council is compliant with the rate cap.

Hobsons Bay City Council's statement of explanation

The immaterial non-compliance is due to a slight difference between the valuation figures included within the budget (used to calculate rate in the dollars) and the valuation figures within the commission's rate cap compliance return.

The budget and rate in the dollars for 2018-19 were adopted by Council on 26 June 2018 and based on raw data received by Council's contract valuers on 6 June. At this point in time, Council's rate in the dollars and overall rate increase were compliant with the rate cap of 2.25 per cent.

Subsequent to providing the data on 6 June, Council's contract valuers made some minor changes to the valuations database, which has been standard practice over previous years. The most significant change related to three valuation objections processed on 28 June, two days after the budget was adopted. The objections reduced the 2017-18 (prior year) valuations and decreased the base rate and the amount of rates Council could raise in 2018-19.

After receiving advice from the commission that Council could adjust its rate in the dollars via a Council resolution, consideration was given to this approach. As rates had already been raised, rate notices distributed and the first instalment processed, it was considered too costly and an unnecessary allocation of resources to reduce the residential rate by 0.000001. When determining rates for 2019-20, Council will consider its immaterial non-compliance (2.28 per cent) and the average overcharge of \$0.75 per property and rates will be reduced accordingly.

To avoid this issue in the future, Council will not allow any adjustments to be made to the valuation database after rate in the dollars have been calculated in early June of each year. All valuation objections and any other adjustments will be processed in the new financial year, after Council has rolled over the rates and completed the commission's return.

A report was tabled at the Council meeting held on 13 November 2018, outlining the method used to deal with the issue.

Swan Hill Rural City Council's statement of explanation

Council's non-compliance with the rate cap came about due to coding changes within the Swan Hill Rural City Council's valuation, conducted by the Office of the Valuer General. These coding changes resulted in a change in the valuation of properties between the stage 4 and stage 5 valuations being returned. Because of Council's requirement to adopt a budget before 30 June each year and the necessary consultation period required leading up to that, Council had no choice but to use the stage 4 valuation data for the purposes of striking a rate.

By the time the stage 5 valuations were returned and we became aware that we were inadvertently exceeding our rate cap Council had already resolved on its budget and set rates for the 2018-19 year and had its rate notices printed.

The effect of this immaterial exceedance of our rate cap means that Council is raising \$10,880.87 in excess of its intended rate collection for the financial year. This averages out at \$0.91 per assessment. Officers of this organisation undertook an assessment of what it would take to rerun our rate notices and to recalculate the rates and officers believe that the cost would be in the order of \$20,000.

Based on the immateriality of the error and the fact that the cost to rectify this error would be greater than the monies raised, Council decided to proceed with our rates as previously adopted. Council have also agreed that when setting our rates for 2019-20, we will do our very best to ensure that the monies we collect are reduced by an equivalent amount so that overall no additional funds beyond that which were intended to be raised are drawn from our ratepayers.

Materially non-compliant council

Yarriambiack Shire Council's statement of explanation

Yarriambiack Shire received their valuations late in the budget preparation process resulting in figures taken from the 2017-18 budget being utilised.

The resulting difference of 0.27 per cent over the rate cap or additional \$39,000 revenue collected in the 2018-19 financial year will be rectified in the 2019-20 financial year by a lower percentage rate increase or a credit to each assessment.

New waste service charges for 2018-19

Service charges are not included in the rate cap. Most councils levy service charges to recover waste management costs.

We monitor waste service charges to identify any unexplained or unusual increases. We will report more broadly on trends in waste service charges in our first outcomes report in early 2019, which looks at the impact of the rate cap on council finances, services and infrastructure.

Three councils introduced a new waste charge for 2018-19

We ask councils to give us information about community consultation and the impact on ratepayers if they introduce a new waste service charge.⁶ Three councils introduced a new waste charge for 2018-19 and gave us this information.⁷

Hindmarsh Shire Council

Hindmarsh introduced a new waste charge to recover litter removal costs previously recovered through general rates. The waste charge is \$9 per ratepayer and will collect about \$33,500 in 2018-19. The introduction of this waste charge was not revenue neutral. Hindmarsh consulted its ratepayers and community on the waste charge during its budget process for 2018-19.

Monash City Council

Monash introduced a new waste charge to recover increased recycling costs. The waste charge is \$22 per ratepayer and will collect about \$1.47 million in 2018-19. The introduction of this waste charge was not revenue neutral; however Monash demonstrated its increased recycling costs in its higher cap application submitted to us in March 2018.⁸ Monash consulted its ratepayers and community on the waste charge during its budget process for 2018-19.

Whittlesea City Council

Whittlesea introduced a new waste charge to recover waste management costs previously recovered through general rates. The waste charge is \$93.15 per residential/farm ratepayer and \$150.20 per commercial/industrial ratepayer, and will collect about \$7.19 million in 2018-19.

⁶ We report on new waste service charges in our annual compliance report as the annual compliance information submitted by councils allows us to assess whether a new waste service charge is revenue neutral.

⁷ The introduction of a new waste service charge is at the discretion of the council. We only monitor and report on the introduction of these charges.

⁸ Monash City Council's higher cap application and our decision paper can be found on our website <http://www.esc.vic.gov.au/higher-cap-applications-2018>

Whittlesea decreased its general rates revenue by \$7.19 million in 2018-19 to account for the increased service charges revenue. The introduction of this waste charge was revenue neutral. Whittlesea consulted its ratepayers and community on the waste charge during its budget process for 2018-19.

Next steps

We will release updated guidance for councils in early 2019

We will release the updated annual compliance information template and guidance for councils in early 2019. We will notify councils by email.

We encourage councils to contact us to discuss any queries regarding the annual compliance information. Councils can call us on (03) 9032 1300 or email us at localgovernment@esc.vic.gov.au.

We will undertake random audits in early 2019

The data councils provide to us in their annual compliance information is not publicly available. To ensure our compliance monitoring and reporting is robust and fair, we will undertake random audits of councils in early 2019.

Information for ratepayers

For more information on our role under the Fair Go Rates system or to access past compliance reports, you can visit our website www.esc.vic.gov.au/local-government.

Appendix A: The Fair Go Rates system

The Fair Go Rates system is the economic framework we use to administer council rate caps.

The system limits the maximum amount a council can increase its average rates in a year without seeking approval for a higher cap. 'Average rates' refers to the rates paid by the notional average ratepayer; this is calculated as total revenue from general rates and municipal charges divided by the number of rateable properties.

Each year the Minister for Local Government sets the average rate cap for the following rating year by general order. A council may apply to us for a higher cap. If we are satisfied that the proposed higher cap meets legislative requirements, we set a higher cap by special order.

A council must comply with a general order or special order that applies to it. To comply, a council's capped average rate must not exceed its base average rate by more than the rate cap specified in a general order or special order that applies to it.

Base average rate^a

$BAR = Rb/L$ where

- BAR is the base average rate
- Rb is the total annualised revenue leviable from general rates and municipal charges as at 30 June in the base year (2017-18)
- L is the total number of rateable properties as at 30 June in the base year (2017-18)

Capped average rate^b

$CAR = Rc/L$ where

- CAR is the capped average rate
- Rc is the total annualised revenue leviable from general rates and municipal charges as at 1 July in the capped year (2018-19)
- L is the total number of rateable properties as at 1 July in the capped year (2018-19)

^a Section 185B, Local Government Act 1989. ^b Section 185C, Local Government Act 1989.

Appendix B: Our role in monitoring and reporting compliance

We must monitor and review council compliance with the rate caps under the Fair Go Rates system.⁹ We must also prepare an annual report on council compliance with the rate caps.¹⁰

How we assess compliance with the rate caps

To assess council compliance with the rate caps:

1. All councils must submit annual compliance information to us in September each year. This includes the annual compliance information template and rating system reports certified by each council's chief executive officer.
2. We ask each council to explain any differences between the template and rating system reports and any other anomalies.
3. The template uses each council's data to calculate its base average rate, capped average rate and average rate increase (rounded to two decimal places).

$$\text{Average rate increase} = (\text{capped average rate} - \text{base average rate}) / \text{base average rate} \times 100$$

4. We assess whether each council's capped average rate does or does not exceed its base average rate by more than the rate cap.
 - A council is compliant if its capped average rate does not exceed its base average rate by more than the rate cap (i.e. its average rate increase does not exceed the rate cap).
 - A council is non-compliant if its capped average rate does exceed its base average rate by more than the rate cap (i.e. its average rate increase does exceed the rate cap).

We generally consider that non-compliance is 'immaterial' if it is negligible and of no immediate concern.

⁹ Section 10E(1)(a), Essential Services Commission Act 2001

¹⁰ Section 10E(2), Essential Services Commission Act 2001

Appendix C: List of compliant councils

Based on annual compliance information as at 12 December 2018

Council	Council
Alpine Shire Council	Greater Dandenong City Council
Ararat Rural City Council	Greater Geelong City Council
Ballarat City Council	Greater Shepparton City Council
Banyule City Council	Hepburn Shire Council
Bass Coast Shire Council	Hindmarsh Shire Council
Baw Baw Shire Council	Horsham Rural City Council
Bayside City Council	Hume City Council
Benalla Rural City Council ^a	Indigo Shire Council ^a
Boroondara City Council	Kingston City Council
Borough of Queenscliffe	Knox City Council ^a
Brimbank City Council	Latrobe City Council
Buloke Shire Council	Loddon Shire Council
Campaspe Shire Council	Macedon Ranges Shire Council
Cardinia Shire Council ^a	Manningham City Council
Casey City Council ^a	Mansfield Shire Council
Central Goldfields Shire Council	Maribyrnong City Council
Colac Otway Shire Council	Maroondah City Council
Darebin City Council	Melbourne City Council ^a
East Gippsland Shire Council	Melton City Council
Frankston City Council	Mildura Rural City Council
Gannawarra Shire Council	Mitchell Shire Council
Glen Eira City Council	Moira Shire Council
Glenelg Shire Council	Monash City Council ^b
Golden Plains Shire Council	Moonee Valley City Council
Greater Bendigo City Council	Moorabool Shire Council

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Based on annual compliance information as at 12 December 2018 (continued)

Council	Council
Moreland City Council	Surf Coast Shire Council
Mornington Peninsula Shire Council	Towong Shire Council ^b
Mount Alexander Shire Council	Wangaratta Rural City Council
Moyne Shire Council	Warrnambool City Council
Murrindindi Shire Council	Wellington Shire Council
Nillumbik Shire Council	West Wimmera Shire Council ^b
Northern Grampians Shire Council	Whitehorse City Council
Port Phillip City Council	Whittlesea City Council
Pyrenees Shire Council ^b	Wodonga Rural City Council
South Gippsland Shire Council	Wyndham City Council
Southern Grampians Shire Council	Yarra City Council
Stonnington City Council	Yarra Ranges Shire Council ^a
Strathbogie Shire Council	

^a Adjusted rates in the dollar (or municipal charge) in October or November after submitting their annual compliance information for 2018-19 to us. ^b Compliant with approved higher cap.