



Council Rate Cap Compliance 2019–20

Compliance Report

November 2019



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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 2019–20, was compliant with the average rate cap or a higher cap (if applicable). We also report on the introduction of new waste service charges for 2019–20.

Compliance with the rate caps for 2019–20

How rate caps are set

The Fair Go Rates 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, and 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.

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.

All councils were compliant with the rate caps

Based on the data councils provided to us in their annual compliance information for 2019–20, all councils complied with the average rate cap or higher cap. This is the fourth annual compliance report published by the commission since the introduction of the Fair Go Rates system in 2016–17 and the first time since 2016–17 that all councils have reported compliant results.

The Minister for Local Government set the average rate cap at 2.50 per cent for the 2019–20 rating year, which all but four councils were required to comply with. We approved a higher cap for the following councils:^{1,2}

- Mansfield Shire Council: 13.94 per cent
- Towong Shire Council: 5.55 per cent
- Warrnambool City Council: 4.50 per cent
- West Wimmera Shire Council: 3.50 per cent.

We run a range of checks on the data submitted by councils to validate their compliance, but do not independently verify the underlying data submitted by each council. However, each council's submission is certified as accurate by the council's chief executive officer.

¹ The approved higher caps are inclusive of the minister's average rate cap.

² We approved the higher caps for Towong Shire Council and West Wimmera Shire Council in July 2017, and the higher caps for Mansfield Shire Council and Warrnambool City Council in May 2019.

Last year's non-compliant councils set lower average rate increases

In 2018–19, four councils were non-compliant. Each of these councils set lower rate increases for the 2019–20 rating year. This demonstrates an attempt to rectify their previous non-compliance.

Table 1 compares the percentage amount each council exceeded the average rate cap in 2018–19 and the percentage amount they were below the average rate cap in 2019–20.

Table 1 Percentage points above and below the rate cap

Council	2018–19 (above the rate cap)	2019–20 (below the rate cap)
Corangamite Shire Council	0.01%	0.01%
Hobsons Bay City Council	0.03%	0.03%
Swan Hill Rural City Council	0.05%	1.49%
Yarriambiack Shire Council	0.32%	0.31%

Councils are checking compliance earlier in the year

We observe that councils are taking an increasingly proactive approach to ensuring they are compliant with the rate cap.

In 2019–20, three councils changed their rates in the dollar at the beginning of the rating year.³ By checking compliance at the beginning of the rating year, these councils were able to adjust their rates in the dollar as early as possible, avoiding non-compliance and minimising costs to ratepayers.

In past years, some councils did not test their compliance with the rate cap until we assessed it in October.⁴ This increased the cost of corrective actions taken by potentially non-compliant councils (such as changing the rates in the dollar and reprinting rates notices).

Councils should have systems and processes in place to identify potential non-compliance and adjust their rates in the dollar (if appropriate) to minimise confusion and cost for ratepayers, ahead of our compliance assessment process.

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

⁴ Councils typically set their rate in the dollar as part of finalising their budgets in June and issue rates notices starting in September.

Changes to 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 three reasons:

- The value of a property may increase or decrease relative to other properties in the municipality.
- Different rates in the dollar (called '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.

New waste service charges for 2019–20

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

We monitor and report on councils that introduce new service charges to identify any unexplained or unusual increases in service charge revenue. We report more broadly on trends in waste service charges in our biennial outcomes report. Our first report was released in May 2019. Interested readers may access the report, as well as individual council fact sheets, on our website.⁵

One council introduced a new waste charge for 2019–20

We ask councils that introduce service charges to give us information about their rating strategy, community consultation, and the impact the new charge has on ratepayers. Maribyrnong City Council introduced a new waste charge for 2019–20 and provided this information.

Maribyrnong City Council introduced a revenue-neutral waste charge

Maribyrnong introduced a new waste charge as part of a broader change to their rating structure.⁶ The service charge is used to recover waste management costs previously recovered through general rates. The waste charge is \$157.65 per ratepayer and is budgeted to collect \$5.7 million in revenue in 2019–20. Maribyrnong consulted its community in November and December 2018 and throughout the budget process for 2019–20.

We find that the overall impact on the community is neutral.⁷ Maribyrnong offset the additional service charge revenue by applying an average rate reduction of negative 3.21 per cent (which raises \$5.7 million less in general rates and municipal charges revenue).

Table 2 Revenue raised under both rating structures in 2019–20

Previous rating structure (no waste charge)	New rating structure (with waste charge)
\$102,193,502	\$102,193,486

⁵ <https://www.esc.vic.gov.au/local-government/studies-and-reviews/local-council-outcomes-report-2019>

⁶ Maribyrnong council also introduced a municipal charge and moved from a net annual value to a capital improved value system.

⁷ Although the overall impact is neutral, individual ratepayers will be affected differently due to the value of their properties.

Next steps

We will release updated guidance for councils in early 2020

We will release the updated annual compliance information template and guidance for councils in early 2020. We will publish this on our website and 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 are currently undertaking a compliance process review

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 are undertaking process reviews of councils in late 2019. These reviews will help us identify whether we need to further refine the guidance we provide to councils.

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: How average rates are calculated

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 (2018–19)
- L is the total number of rateable properties as at 30 June in the base year (2018–19)

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 (2019–20)
- L is the total number of rateable properties as at 1 July in the capped year (2019–20)

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

Appendix B: Our role in monitoring and reporting compliance

Under section 10E(1)(a) of the Essential Services Commission Act 2001, we must monitor and review council compliance with the rate caps set under Part 8A of the Local Government Act 1989. Under section 10E(2) of the Essential Services Commission Act 2001, we must prepare an annual report on council compliance with the rate caps.

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.