

Fair Go Rates system – Compliance monitoring and reporting

Guidance for councils 2024–25

February 2024



Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

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About this document

The Victorian Government established the Fair Go Rates system in 2015 to limit the amount by which Victorian councils can increase rates in a year without seeking additional approval (see Appendix A for more information). Under the Fair Go Rates system, the Essential Services Commission must monitor and report on council compliance with the rate cap.

This document guides councils on how we perform our role. It explains how to calculate the base average rate and capped average rate, what information councils must provide to us, and how we monitor and report on compliance.

This document complements *Fair Go Rates system – Applying for a higher cap: Guidance for councils 2024–25*, which provides details on how to plan and make a higher cap application. Together, the two documents give councils the information they need to meet their obligations under the Fair Go Rates system for the 2024–25 rating year. We will update these documents for the 2025–26 rating year and will incorporate any necessary changes stemming from any legislative changes or review processes. We also welcome any feedback or suggestions from councils on how to improve this guidance or the rate cap compliance template.

Table 1 Key dates and timelines for the 2023–24 rating year

| Fair Go Rates system — key dates | Timeframe |
|--|---|
| Base year | 1 July 2023 – 30 June 2024 |
| The minister announced the rate cap for 2024–25 (2.75 per cent) | 22 December 2023 ^a |
| A council considering seeking approval for a higher cap notifies the commission of an intention to apply | by 31 January 2024 |
| A council submits their application for a higher cap, with budget baseline information | 1 February – 31 March 2024 |
| The commission assesses council applications | February – May 2024 |
| The commission notifies councils of decisions | within two months of receipt of application |
| Capped year | 1 July 2024 – 30 June 2025 |
| Councils formally adopt budget | no later than 30 June 2024 |
| All councils send annual compliance information | by 30 September 2024 |
| The commission publishes compliance report | late 2024 |

^a The minister must announce the average rate cap by 31 December each year, unless an alternative date is determined by the minister and published in the Government Gazette.

Communicating with the commission

The local government team can be contacted via email localgovernment@esc.vic.gov.au or phone (03) 9032 1300 to respond to queries or requests for information.

All councils can expect to receive general information, enquiries and instructions from the commission about complying with the rate cap or applying for a higher cap.

We ask councils to nominate and maintain a key contact for these communications. We may also copy communications to the chief executive officer and the records area of each council.

Monitoring and reporting on compliance with the rate cap

What information councils must provide to us

All councils must submit the following documents to us by 30 **September 2024**:

- Annual compliance information template 2024–25 (as an Excel file)
- Rating system reports as at 30 June 2024 and 1 July 2024
- Completed Better Practice Property & Rates Database Checklist
- CEO certification

Councils should submit the annual compliance information to us by email at localgovernment@esc.vic.gov.au

We may ask councils to provide additional supporting documents as necessary.

Annual compliance information template

A council must provide the following information in the annual compliance information template:

- Total valuations as at 1 July 2023, 30 June 2024 and 1 July 2024
- Number of rateable properties as at 1 July 2023, 30 June 2024 and 1 July 2024
- Number of municipal charge properties as at 1 July 2023, 30 June 2024 and 1 July 2024
- Rate(s) in the dollar for 2023–24 and 2024–25
- Municipal charge per property for 2023–24 and 2024–25.

The annual compliance information template will automatically calculate:

- General rates revenue as at 1 July 2023 and 1 July 2024
- Municipal charges revenue as at 1 July 2023 and 1 July 2024
- Annualised supplementary general rates revenue as at 30 June 2024
- Annualised supplementary municipal charges revenue as at 30 June 2024
- Base average rate
- Capped average rate
- Average rate increase.

The annual compliance information template can be found on our [website](#)¹.

Rating system reports

A council must provide rating system reports as at 30 June 2024 and 1 July 2024. These reports should include all information council inputs to the annual compliance template, to the level of property numbers and dollars ± authorised adjustments.

If a council is unable to provide rating system reports, it must provide the Valuer-General Victoria 'Report of general valuation'.

The rating system reports allow us to verify the information included in the template and provide confidence to us and ratepayers that the correct information is being used to test compliance. Without either the required rating system reports or the Valuer-General Victoria 'Report of general valuation', we will not be able to assess whether a council is compliant.

Better Practice Property & Rates Database Checklist

In 2020, we completed a review of the processes that councils follow, as they work to confirm that their rates comply with rate-capping requirements. Our aim was to better understand their different processes, and to confirm the information sent to us is reliable and accurate. As part of that review we identified a number of better practice controls that several councils have adopted.² We wish to promote better practice which, we believe, will provide councils and ourselves with confidence in councils' compliance submissions.

The better practice property and rates database checklist can be found on our [website](#)³. A council must respond to a series of brief Yes/No questions, asking whether it has conventional internal controls in place to ensure its property and rating systems operate reliably. If specific controls identified in the checklist are not currently in operation, the council can identify other controls it has in place.

Inability to confirm the existence of any controls **will not prevent us from considering a submission or determining whether a council is compliant**. Rather, the information provided as part of the checklist will help us to better understand councils' processes, direct our follow up questions if needed, and allow us to further refine our guidance and approach to assessing compliance.

¹ www.esc.vic.gov.au/local-government/guidance-councils#tabs-container2

² Our review included an information-gathering survey of compliance practices, to which 66 councils responded, and meetings in person with staff of 12 councils, selected as representative of the sector, early in 2020.

³ www.esc.vic.gov.au/local-government/guidance-councils#tabs-container2

The checklist identifies measures we generally expect to be in place, to ensure that records of a rating system are complete, accurate, authorised and timely, and that information provided to us reliably presents the number and valuation of all the council's rateable properties for the year. The checklist is attached to the compliance template, with the CEO's certification, for review and signature.

CEO certification

A council must provide a CEO certification. The certification confirms:

- that the annual compliance information template, rating system reports and better practice property and rates database checklist have been provided to and reviewed by the CEO
- that the data is based on a system with effective controls and fairly represents the basis for the council's rates
- that the data is public and can be published by us.

The CEO certification statement can be found on our [website](#).⁴

How we monitor and report on compliance with the rate cap

1. We check that the information in the annual compliance information template is consistent with the information in the rating system reports.
 - A council should explain any differences between the rating system reports and template in the 'notes' tab of the template (and provide supporting documents). If there are any unexplained differences, we will ask the council to explain and provide supporting documents.
2. We check whether the capped average rate does or does not exceed the base average rate by more than the rate cap.⁵
 - A council is compliant if the capped average rate does not exceed the base average rate by more than the rate cap (i.e. the average rate increase does not exceed the rate cap).
 - A council is non-compliant if the capped average rate does exceed the base average rate by more than the rate cap (i.e. the average rate increase does exceed the rate cap).

⁴ www.esc.vic.gov.au/local-government/guidance-councils#tabs-container2.

⁵ The rate cap refers to the average rate cap or higher cap (if applicable).

We assess a council's average rate increase rounded to two decimal places consistent with the gazetted average rate cap⁶.

$$\text{Average rate increase} = \frac{\text{capped average rate} - \text{base average rate}}{\text{base average rate}} \times 100$$

3. We report each council as compliant or non-compliant in our annual compliance report. We may report non-compliance as material or immaterial.

What happens if a council is non-compliant

If a council is non-compliant, we will ask the council to provide a statement of explanation, which we will publish in our annual compliance report. In this statement, the council should consider explaining:

- the reason for non-compliance
- how the council might rectify the non-compliance
- how the council might improve systems and processes to prevent non-compliance in future years.

Repeated and substantial non-compliance

Failure to comply with the cap *in a single year* does not affect the validity of any rates or charges that the council levies in that financial year. However, if the minister is satisfied that a council *repeatedly and substantially* failed to comply with a rate cap, they may declare all or part of a council's rates or charges levied in a financial year to be invalid.⁷ Repeated non-compliance may also be grounds for a council's suspension by the minister.⁸ We may also consider it when assessing any future applications for a higher cap.⁹

⁶ See Victoria Government Gazette No. S 702 Thursday 21 December 2023.

⁷ Section 185F(3) Local Government Act 1989

⁸ Section 230(2)(b) Local Government Act 2020.

⁹ Section 185E(6)(c) Local Government Act 1989.

Monitoring and reporting on waste service charges

Councils provide a range of waste management services at varying service levels depending on community needs and council priorities. Councils also recover waste management costs through different revenue sources including general rates, service charges¹⁰, and user fees. Most councils recover waste management costs primarily through service charges, which are not included in the rate cap.

How we monitor and report on new waste service charges

Councils can introduce new waste service charges in a number of situations, such as:

1. to recover waste management costs that were previously recovered through general rates
2. to recover waste management costs that were previously recovered through general rates **and** to reflect changes in service levels or waste management costs
3. to recover costs for a waste management service that has not previously been provided by the council.

We monitor such changes to ensure that the rate cap is working as intended.

What information a council should provide to us and its community

If a council **plans** to introduce a new waste service charge, it should:

- inform us as soon as possible, and update us regularly
- undertake community engagement on the new waste service charge¹¹
- ensure the new waste service charge has a neutral impact on ratepayers and does not result in a windfall gain to the council; for instance:
 - In the first situation above, the increase in revenue from service charges should match the decrease in revenue from general rates.
 - In the second or third situation, the increase in revenue from service charges may be higher than the decrease in revenue from general rates and charges and the council should explain why.

¹⁰ This chapter also applies to service rates.

¹¹ In its Local Government Better Practice Guide Revenue and Rating Plan, Book 3: Council Employees the Department of Government Services advised councils: 'Though deliberative community engagement is not prescribed for a revenue and rating plan, given the low levels of understanding around rates, the benefits of educating the community are substantial and public consultation should be viewed as an integral part of a council's consultation strategy.'. See Department of Government Services, *Local Government Better Practice Guide Revenue and Rating Plan, Book 3: Council Employees*, Local Government Victoria, 2023 for more information.

- Revise its Revenue and Rating Plan to reflect the new waste service charge.¹²

If the council **resolves** to introduce the new waste service charge, it should provide to us at the time of submitting the annual compliance information:

- information about the council's engagement process and outcomes, and how it accounted for ratepayer and community views.
- information to demonstrate that the new waste service charge has a neutral impact on ratepayers.
- revised Revenue and Rating Plan.

We will report on new waste service charges in our annual compliance report.

If it is clear that introducing the new waste service charge may disadvantage ratepayers as a whole, and the council cannot explain the apparent windfall gain that results, we may include the matter in our compliance report. The minister may request us to advise on an alternative rate cap for the council in a future year, taking into account a waste adjustment.¹³

Councils are encouraged to contact us if they have any questions about our approach.

How we monitor and report on service charges more broadly

There is limited data available publicly on councils' waste management revenue and costs. We therefore ask councils to provide details in the annual compliance information template each year. This information helps us to monitor service charges. We may use it to:

- understand changes in services charges over time
- help assess a council's higher cap application if it chooses to recover waste management costs through general rates and apply for a higher cap where these costs have increased above the rate cap.
- establish benchmarks for waste management costs or make recommendations to the minister on waste management cost recovery in the future.

¹² A revised Revenue and Rating Plan (including new service charges) is preferably adopted at the start of a financial year for ease of implementation. Gradual transitions from recovering waste costs through general rates to recovering waste costs through service charges are encouraged.

¹³ Section 185D(3), Local Government Act 1989.

Appendix A: Background

The Fair Go Rates system

The Victorian Government established the Fair Go Rates system in 2015 to limit the amount by which Victorian councils can increase rates in a year without seeking additional approval.

The rate cap

Each year the Minister for Local Government sets the average rate cap for the following rating year by general Order.^{14,15} The average rate cap is based on the forecast change in the consumer price index¹⁶ over the rating year to which the cap relates, plus or minus any adjustment.¹⁷

A council can 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. Guidance on applying for a higher cap can be found on our website.¹⁸

How the rate cap works

The rate cap limits the maximum amount a council can increase its *average rates* in a rating year. The rate cap applies to general rates and municipal charges only.¹⁹ It does not include other charges and levies such as service rates and charges, special rates and charges, revenue in lieu of rates or the fire services levy.

$$\text{Average rates} = \frac{\text{revenue from general rates and municipal charges}}{\text{number of rateable properties}}$$

¹⁴ The minister must seek, and have regard to, advice from the commission before setting the average rate cap.

¹⁵ There may be a single cap for all 79 councils, or separate caps for individual councils or classes of council.

¹⁶ Under section 3 of the Local Government Act 1989, the consumer price index is defined as the forecast Melbourne consumer price index, as published in the budget update prepared in December under the Financial Management Act 1994.

¹⁷ The legislation would allow, for instance, an adjustment for wage pressure or an efficiency factor.

¹⁸ <https://www.esc.vic.gov.au/local-government/higher-rate-cap-applications/guidance-councils-applying-higher-cap>.

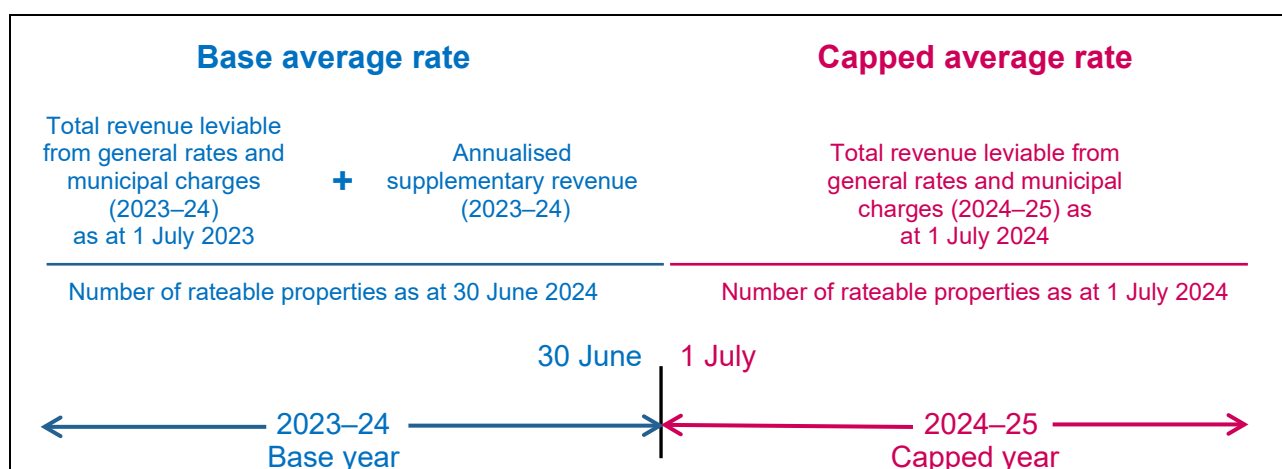
¹⁹ The minister has the power to prescribe other rates and charges to be included in the rate cap.

Complying with the rate cap

A council must comply with the average rate cap set by general Order by the Minister for Local Government or a higher cap set by special Order by us (if applicable). To comply, the capped average rate must not exceed the base average rate by more than the average rate cap or higher cap.

Compliance with the rate cap in the capped year is calculated in relation to the base average rate in the preceding rating year. For the 2024–25 financial year, the base year is 2023–24 and the capped year is 2024–25. Figure 1 summarises the calculation of the base average rate and capped average rate for the 2024–25 financial year.

Figure 1 Summary of the base average rate and capped average rate



See appendixes B and C for more information on calculating the base average rate and the capped average rate.

Our role in monitoring and reporting

To ensure transparency and accountability of councils to ratepayers and communities, we publish information about council compliance and broader outcomes under the Fair Go Rates system. We do this to help ratepayers and communities assess the value for money in the services they receive and to monitor the impact of rate capping more broadly.

We monitor and report on:

- Council compliance with the minister's cap or any higher cap (approved by us) in our annual [compliance report](#)^{20,21}
- Council service, infrastructure and financial outcomes following the introduction of rate capping in our biennial [outcomes report](#)^{22,23}

²⁰ <https://www.esc.vic.gov.au/local-government/council-compliance-rate-caps/council-compliance-reports>

²¹ Section 10E(1)(a), Essential Services Commission Act 2001; section 10E(2), Essential Services Commission Act 2001.

²² <https://www.esc.vic.gov.au/local-government/rate-capping-outcomes-reports>

²³ Section 10E(1)(b), Essential Services Commission Act 2001; section 10E(1)(c), Essential Services Commission Act 2001; section 10E(3), Essential Services Commission Act 2001.

Appendix B: The base average rate and the capped average rate

How to calculate the base average rate

The base average rate is the total annualised revenue leviable from general rates and municipal charges as at 30 June in the base year divided by the number of rateable properties as at 30 June in the base year. This calculation is shown below.

$$\text{Base average rate} = \frac{\text{Rb}}{\text{L}}$$

Rb = total annualised revenue leviable from general rates and municipal charges on rateable properties as at 30 June in the base year

L = number of rateable properties as at 30 June in the base year

For the 2024–25 rating year:

Rb = total revenue leviable from general rates as at 1 July 2023
(excluding any allowance for supplementary general rates revenue)

+

total revenue leviable from municipal charges as at 1 July 2023
(excluding any allowance for supplementary municipal charges revenue)

+

annualised supplementary general rates revenue as at 30 June 2024

+

annualised supplementary municipal charges revenue as at 30 June 2024

L = number of rateable properties as at 30 June 2024

Note: cultural and recreational land (as defined under the Cultural and Recreational Land Act 1963) is excluded from the calculation of base average rate.

How to calculate annualised supplementary revenue

Annualised supplementary general rates revenue

= (total value of land as at 30 June in the base year – total value of land as at 1 July in the base year)

x rate in the dollar

For the 2024–25 rating year:

= (total value of land as at 30 June 2024 – total value of land as at 1 July 2023)

x rate in the dollar (2023–24)

Annualised supplementary municipal charges revenue

= (number of rateable properties on which a municipal charge is leviable as at 30 June in the base year – number of rateable properties on which a municipal charge is leviable as at 1 July in the base year)

x municipal charge per property

For the 2024–25 rating year:

= (number of rateable properties on which a municipal charge is leviable as at 30 June 2024 – number of rateable properties on which a municipal charge is leviable as at 1 July 2023)

x municipal charge per property (2023–24)

How to calculate the capped average rate

The capped average rate is the total revenue leviable from general rates and municipal charges as at 1 July in the capped year divided by the number of rateable properties as at 1 July in the capped year. This calculation is shown below.

$$\text{Capped average rate} = \frac{Rc}{L}$$

Rc = total revenue leviable from general rates and municipal charges on rateable properties as at 1 July in the capped year

L = number of rateable properties as at 1 July in the capped year

For the 2024–25 rating year

Rc = total revenue leviable from general rates as at 1 July 2024
(excluding any estimate for supplementary general rates revenue)

+

total revenue leviable from municipal charges as at 1 July 2024
(excluding any estimate for supplementary municipal charges revenue)

L = number of rateable properties as at 1 July 2024

Note: cultural and recreational land (as defined under the Cultural and Recreational Land Act 1963) is excluded from the calculation of capped average rate.

Appendix C: Worked example

This section shows an example of how Council A would calculate its base average rate and capped average rate for the 2024–25 rating year.

The following assumptions apply:

- Council A does not have differential rates.
- Council A levies a municipal charge on all rateable properties.
- A revaluation will take effect from 1 July 2024 for the 2024–25 rating year. Overall, property valuations will increase by five per cent.

| Council A – Calculating the base average rate | |
|---|------------------|
| Total value of land as at 1 July 2023 | \$20,000,000,000 |
| Total value of land as at 30 June 2024 | \$20,600,000,000 |
| Number of rateable properties as at 1 July 2023 | 43,000 |
| Number of rateable properties as at 30 June 2024 | 43,600 |
| Rate in the dollar (2023–24) | \$0.0035 |
| Municipal charge per property (2023–24) | \$110 |
| Total revenue leviable from general rates as at 1 July 2023 | |
| = Total value of land as at 1 July 2023 * rate in the dollar (2023–24) | |
| = \$20,000,000,000 * \$0.0035 | |
| = \$70,000,000 | |
| Total revenue leviable from municipal charges as at 1 July 2023 | |
| = Number of rateable properties as at 1 July 2023 * municipal charge per property (2023–24) | |
| = 43,000 * \$110 | |
| = \$4,730,000 | |

Annualised supplementary general rates

$$\begin{aligned} &= (\text{Total value of land as at 30 June 2024} - \text{total value of land as at 1 July 2023}) * \text{rate in the dollar} \\ &= (\$20,600,000,000 - 20,000,000,000) * \$0.0035 \\ &= \$2,100,000 \end{aligned}$$

Annualised supplementary municipal charges

$$\begin{aligned} &= (\text{Number of rateable properties as at 30 June 2024} - \text{number of rateable properties as at 1 July 2023}) * \text{municipal charge per property} \\ &= (43,600 - 43,000) * \$110 \\ &= \$66,000 \end{aligned}$$

Base average rate

$$\begin{aligned} &= (\text{Total revenue leviable from general rates as at 1 July 2023} \\ &+ \text{Total revenue leviable from municipal charges as at 1 July 2023} \\ &+ \text{Annualised supplementary general rates as at 30 June 2024} \\ &+ \text{Annualised supplementary municipal charges as at 30 June 2024}) \\ &/ \text{Number of rateable properties as at 30 June 2024} \\ &= (\$70,000,000 + \$4,730,000 + \$2,100,000 + \$66,000) / 43,600 \\ &= \$1,763.67 \end{aligned}$$

Council A – Applying the rate cap

| | |
|---|---------------|
| Minister's rate cap (2024–25) | 2.75 per cent |
| Number of rateable properties as at 1 July 2024 | 43,600 |

Maximum allowable capped average rate for 2024–25

$$\begin{aligned} &= \text{Base average rate} * (1 + \text{rate cap}) \\ &= \$1,763.67 * (1 + 0.0275) \\ &= \$1,812.17 \end{aligned}$$

Maximum allowable revenue from general rates and municipal charges for 2024–25

$$\begin{aligned} &= \text{Maximum allowable capped average rate} * \text{number of rateable properties as at 1 July 2024} \\ &= \$1,825.40 * 43,600 \\ &= \$79,587,360 \end{aligned}$$

Council A – Calculating the capped average rate

| | |
|---|------------------|
| Total value of land as at 1 July 2024 | \$21,630,000,000 |
| Number of rateable properties as at 1 July 2024 | 43,600 |
| Rate in the dollar (2024–25) | \$0.003425 |
| Municipal charge per property (2024–25) | \$113.03 |

Total revenue leviable from general rates as at 1 July 2024

$$\begin{aligned} &= \text{Total value of land as at 1 July 2024} * \text{rate in the dollar (2024–25)} \\ &= \$21,630,000,000 * \$0.003425 \\ &= \$74,082,750 \end{aligned}$$

Total revenue leviable from municipal charges as at 1 July 2024

$$\begin{aligned} &= \text{Number of rateable properties as at 1 July 2024} * \text{municipal charge per property (2024–25)} \\ &= 43,600 * \$113.03 \\ &= \$4,927,890 \end{aligned}$$

Capped average rate

$$\begin{aligned} &= (\text{Total revenue leviable from general rates as at 1 July 2024} \\ &+ \text{Total revenue leviable from municipal charges as at 1 July 2024}) \\ &/ \text{Number of rateable properties as at 1 July 2024} \\ &= (\$74,082,750 + \$4,927,890) / 43,600 \\ &= \$1,812.17 \end{aligned}$$