

Fair Go Rates system – Compliance monitoring and reporting

Guidance for councils 2020–21

January 2020



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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 is required to monitor and report on council compliance with the rate cap.

This document provides guidance to councils on our role in monitoring and reporting on compliance. 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 accompanies *Fair Go Rates system – Applying for a higher cap: Guidance for councils 2020–21*, which provides details on how to plan and make a higher cap application. Together, these two documents provide councils with the necessary information on how to meet their requirements under the Fair Go Rates system for the 2020–21 rating year. We will update these documents for the 2021–22 rating year and will incorporate any necessary changes stemming from any legislative changes or review processes.

Table 1 Key dates and timelines for the 2020–21 rating year

Fair Go Rates system — key dates	Timeframe
Base year	1 July 2019 – 30 June 2020
The minister announced the rate cap	13 December 2019 ^a
A council considering seeking approval for a higher cap notifies the commission of an intention to apply	By 31 January 2020
A council submits their application for a higher cap, with budget baseline information	1 February – 31 March 2020
The commission assesses council applications	February – May 2020
The commission notifies councils of decisions	Within two months of receipt of application
Capped year	1 July 2020 – 30 June 2021
Councils formally adopt budget	No later than 30 June 2020
All councils send annual compliance information	By 30 September 2020
The commission publishes compliance report	Late 2020

^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 records area of each council.

About this document

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 2020**:

- Annual compliance information template 2020–21 (as an excel file)
- Rating system reports as at 30 June 2020 and 1 July 2020
- CEO certification

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 2019, 30 June 2020 and 1 July 2020
- Number of rateable properties as at 1 July 2019, 30 June 2020 and 1 July 2020
- Number of municipal charge properties as at 1 July 2019, 30 June 2020 and 1 July 2020
- Rate(s) in the dollar for 2019–20 and 2020–21
- Municipal charge per property for 2019–20 and 2020–21.

The annual compliance information template will automatically calculate:

- General rates revenue as at 1 July 2019 and 1 July 2020
- Municipal charges revenue as at 1 July 2019 and 1 July 2020
- Annualised supplementary general rates revenue as at 30 June 2020
- Annualised supplementary municipal charges revenue as at 30 June 2020
- Base average rate
- Capped average rate
- Average rate increase.

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

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

Rating system reports

A council must provide rating system reports as at 30 June 2020 and 1 July 2020. These reports should support all information council inputs into the annual compliance template. Each rating system report must be signed by the council's chief executive officer.

If a council is unable to provide rating system reports, it must provide the Valuer-General Victoria 'Form 2 – 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.

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

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.²
 - 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).

We assess a council's average rate increase rounded to two decimal places consistent with the gazetted average rate cap³.

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

² The rate cap refers to the average rate cap or higher cap (if applicable).

³ See Victoria Government Gazette No. S 531 Friday 13 December 2019.

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.⁴ Repeated non-compliance may also be grounds for a council's suspension by the minister.⁵ We may also consider it when assessing any future applications for a higher cap.⁶

Amending rates in the dollar

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

⁴ Section 185F(3) Local Government Act 1989

⁵ Section 219(1)(c) Local Government Act 1989.

⁶ 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 charges⁷, 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. There are a number of reasons that a council may introduce a new waste service charge including:

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

We monitor these 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 regularly update us
- Undertake community engagement on the new waste service charge⁸
- Ensure the new waste service charge has a neutral impact on ratepayers and does not result in a windfall gain to the council:
 - In the case of scenario 1 above, the increase in revenue from service charges should match the decrease in revenue from general rates.

⁷ This chapter also applies to service rates.

⁸ In its 2014 Better Practice Guide: Revenue and Rating Strategy, the former Department of Transport, Planning and Local Infrastructure advised councils: 'public consultation is an important part of the revenue and rating strategy. Such an undertaking and its importance warrants a council engaging with their community about the revenue picture, its aims and its impact upon the municipality'. See Department of Transport, Planning and Local Infrastructure, *Local Government Better Practice Guide Revenue and Rating Strategy*, Local Government Victoria, 2014 for more information.

- In the case of scenario 2 or 3 above, 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.
- Revise its rating strategy to reflect the new waste service charge.⁹

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 rating strategy.

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.¹⁰

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 council waste management revenue and costs. The Victoria Grants Commission collects some data from councils on waste management revenue and costs. Councils also report on service charges in their annual report.

We ask councils to provide information on waste management revenue and costs in the annual compliance information template each year. This information helps us to monitor service charges. We may use it for the following purposes:

- To validate a council's submission to us if it proposes changes to service charges in its rating strategy

⁹ A revised rating strategy (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.

¹⁰ Section 185D(3), Local Government Act 1989.

- To validate 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
- To establish benchmarks for waste management costs in the future
- To make any future recommendations to the minister on waste management cost recovery, if necessary.

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.^{11,12} The average rate cap is based on the forecast change in the consumer price index¹³ over the rating year to which the cap relates, plus or minus any adjustment.¹⁴

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.¹⁵

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.¹⁶ 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.

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

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

¹¹ The minister must seek, and have regard to, advice from the commission before setting the average rate cap.

¹² There may be a single cap for all 79 councils, or separate caps for individual councils or classes of council.

¹³ 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.

¹⁴ The legislation would allow, for instance, an adjustment for wage pressure or an efficiency factor.

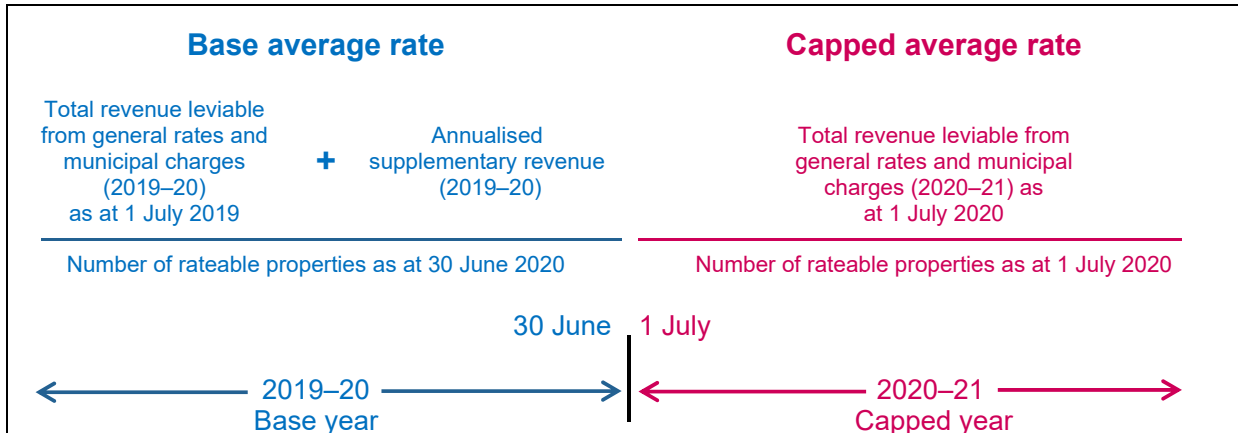
¹⁵ www.esc.vic.gov.au/local-government/guidance-councils#tabs-container2.

¹⁶ The minister has the power to prescribe other rates and charges to be included in the rate cap.

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 2020–21 financial year, the base year is 2019–20 and the capped year is 2020–21. Figure 1 summarises the calculation of the base average rate and capped average rate for the 2020–21 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](#)^{17, 18}

¹⁷ <https://www.esc.vic.gov.au/local-government/council-compliance-reports>

¹⁸ Section 10E(1)(a), Essential Services Commission Act 2001; section 10E(2), Essential Services Commission Act 2001.

- Council service, infrastructure and financial outcomes following the introduction of rate capping in our biennial [outcomes report](#)^{19,20}. This report examines any impacts or trends within and across councils since the introduction of rate capping in 2015.

¹⁹ <https://www.esc.vic.gov.au/local-government/studies-and-reviews/local-council-outcomes-report-2019>

²⁰ 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.

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

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 2020–21 rating year:

Rb = total revenue leviable from general rates as at 1 July 2019
(excluding any allowance for supplementary general rates revenue)

+

total revenue leviable from municipal charges as at 1 July 2019
(excluding any allowance for supplementary municipal charges revenue)

+

annualised supplementary general rates revenue as at 30 June 2020

+

annualised supplementary municipal charges revenue as at 30 June 2020

L = number of rateable properties as at 30 June 2020

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 2020–21 rating year:

= (total value of land as at 30 June 2020 – total value of land as at 1 July 2019)

x rate in the dollar (2019–20)

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 2020–21 rating year:

= (number of rateable properties on which a municipal charge is leviable as at 30 June 2020 – number of rateable properties on which a municipal charge is leviable as at 1 July 2019)

x municipal charge per property (2019–20)

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 2020–21 rating year

Rc = total revenue leviable from general rates as at 1 July 2020
(excluding any estimate for supplementary general rates revenue)

+

total revenue leviable from municipal charges as at 1 July 2020
(excluding any estimate for supplementary municipal charges revenue)

L = number of rateable properties as at 1 July 2020

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 2020–21 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 2020 for the 2020–21 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 2019	\$20,000,000,000
Total value of land as at 30 June 2020	\$20,600,000,000
Number of rateable properties as at 1 July 2019	43,000
Number of rateable properties as at 30 June 2020	43,600
Rate in the dollar (2019–20)	\$0.0035
Municipal charge per property (2019–20)	\$110
Total revenue leviable from general rates as at 1 July 2019	
=	Total value of land as at 1 July 2019 * rate in the dollar (2019–20)
=	\$20,000,000,000 * \$0.0035
=	\$70,000,000
Total revenue leviable from municipal charges as at 1 July 2019	
=	Number of rateable properties as at 1 July 2019 * municipal charge per property (2019–20)
=	43,000 * \$110
=	\$4,730,000
Annualised supplementary general rates	
=	(Total value of land as at 30 June 2020 – total value of land as at 1 July 2019) * rate in the dollar

$$= (\$20,600,000,000 - 20,000,000,000) * \$0.0035$$

$$= \$2,100,000$$

Annualised supplementary municipal charges

$$= (\text{Number of rateable properties as at 30 June 2020} - \text{number of rateable properties as at 1 July 2019}) * \text{municipal charge per property}$$

$$= (43,600 - 43,000) * \$110$$

$$= \$66,000$$

Base average rate

$$= (\text{Total revenue leviable from general rates as at 1 July 2019}$$

$$+ \text{Total revenue leviable from municipal charges as at 1 July 2019}$$

$$+ \text{Annualised supplementary general rates as at 30 June 2020}$$

$$+ \text{Annualised supplementary municipal charges as at 30 June 2020})$$

$$/ \text{Number of rateable properties as at 30 June 2020}$$

$$= (\$70,000,000 + \$4,730,000 + \$2,100,000 + \$66,000) / 43,600$$

$$= \$1,763.67$$

Council A – Applying the rate cap

Minister's rate cap (2020–21)	2.00 per cent
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Number of rateable properties as at 1 July 2020	43,600
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Maximum allowable capped average rate for 2020–21

$$= \text{Base average rate} * (1 + \text{rate cap})$$

$$= \$1,763.67 * (1 + 0.02)$$

$$= \$1,798.94$$

Maximum allowable revenue from general rates and municipal charges for 2020–21

$$= \text{Maximum allowable capped average rate} * \text{number of rateable properties as at 1 July 2020}$$

$$= \$1,798.94 * 43,600$$

$$= \$78,433,920$$

Council A – Calculating the capped average rate	
Total value of land as at 1 July 2020	\$21,630,000,000
Number of rateable properties as at 1 July 2020	43,600
Rate in the dollar (2020–21)	\$0.00339939
Municipal charge per property (2020–21)	\$112.50
Total revenue leviable from general rates as at 1 July 2020	
= Total value of land as at 1 July 2020 * rate in the dollar (2020–21)	
= \$21,630,000,000 * \$0.00339939	
= \$73,528,806	
Total revenue leviable from municipal charges as at 1 July 2020	
= Number of rateable properties as at 1 July 2020 * municipal charge per property (2020–21)	
= 43,600 * \$112.50	
= \$4,905,000	
Capped average rate	
= (Total revenue leviable from general rates as at 1 July 2020	
+ Total revenue leviable from municipal charges as at 1 July 2020)	
/ Number of rateable properties as at 1 July 2020	
= (\$73,528,806 + \$4,905,000) / 43,600	
= \$1,798.94	