



Council compliance with the rate caps for 2017-18

December 2017



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Fair Go Rates system

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; this is calculated as total revenue from general rates and municipal charges divided by total 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 any 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.

Our role in monitoring and reporting compliance

Under section 10E(1)(a) of the *Essential Services Commission Act 2001*, we must monitor and review councils' 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 councils' compliance with the rate caps.

How we monitor compliance with the rate caps

To monitor compliance with the rate caps:

1. All councils must submit the annual compliance information template to us each year. As part of the annual compliance information, a council reports its base average rate and capped average rate.
2. We verify the calculation of the base average rate and capped average rate.
3. We assess whether a council's capped average rate does or does not exceed its base average rate by more than the applicable rate cap.

We note that we assess a council's average rate increase rounded to two decimal places, consistent with the gazetted rate cap decision.

Calculating the base average rate and capped average rate

Base average rate¹

BAR = R_b/L where

BAR is the base average rate

R_b is the total annualised revenue leviable from general rates, municipal charges, and any other prescribed rates and charges as at 30 June in the base year (2016-17)

L is the total number of rateable properties as at 30 June in the base year (2016-17).

Capped average rate²

CAR = R_c/L where

CAR is the capped average rate

R_c is the total annualised revenue leviable from general rates, municipal charges, and any other prescribed rates and charges as at 1 July in the capped year (2017-18)

L is the total number of rateable properties as at 1 July in the capped year (2017-18).

Complying with the rate cap

To comply, the capped average rate must not exceed the base average rate by more than the average rate cap or higher cap.

¹ Section 185B, *Local Government Act 1989*.

² Section 185C, *Local Government Act 1989*.

Monitoring compliance with the rate caps for 2017-18

This is the second year councils have been operating under rate caps, and our second annual report on councils' compliance with the rate caps.

We note that a council typically establishes its rates for the following rating year in June. In this report, we monitor whether a council, in setting its rates for the 2017-18 rating year in June 2017, complied with the applicable rate cap.

The minister set the average rate cap at 2.00 per cent for 2017–18

In December 2016, the Minister for Local Government set the average rate cap at 2.00 per cent for the 2017-18 rating year. All councils are required to comply with the 2.00 per cent rate cap, with the exception of four councils that are required to comply with a higher cap approved by us. For these four councils, we approved the following higher caps in July this year:

- Hindmarsh Shire Council: 4.00 per cent
- Pyrenees Shire Council: 3.50 per cent³
- Towong Shire Council: 5.55 per cent
- West Wimmera Shire Council: 3.50 per cent.

Most councils were compliant with the average rate cap or higher cap

Based on the data councils provided to us in their annual compliance information for 2017-18:

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

We asked each council that was non-compliant for a statement of explanation. Each statement is shown below.

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 councils (certified by the council's chief executive officer).

³ We approved Pyrenees Shire Council's higher cap in May this year.

Material non-compliance

Table 1 Materially non-compliant council

Council	Average rate cap	Average rate increase	Impact on average ratepayer in 2017-18 ^a
Moorabool Shire Council	2.00%	2.14%	\$2.35

^a The impact on the average ratepayer is the difference between the capped average rate and the maximum allowable capped average rate.

Moorabool Shire Council's statement of explanation

Moorabool Shire is non-compliant by \$2.35 per property. The reason for non-compliance was due to an administrative error that occurred when calculating the total rate revenue budget for 2017/18. At the time of preparing the 2017/18 budget, the capped average rate as at July 1, 2016 of \$1674.75 was incorrectly applied in calculating total revenue for 2017/18. The base average rate that should have been applied was an amount of \$1,672.39 (this was the base average rate at the time of calculating the budget). The difference between the incorrect rate (\$1,674.75) and the amount that should have been applied (\$1,672.39) was \$2.35 per tenement. The impact of applying the incorrect base average rate resulted in an additional \$39,000 in rate revenue that has been generated or the equivalent of an additional 0.14% in rates.

Council will adjust the 2018/19 capped average rates calculation to reflect the \$39,000 that was levied in error on the 2017/18 rate notices. This will ensure the ratepayers are returned to substantially the same position by the time 2018/19 rate notices are issued.

Council understands the importance of ensuring the correct calculation of the capped average rates in any given year is critical in preserving the integrity of the Fair Go rates system. It has put measures in place to prevent a reoccurrence.

We have verified the differences in Moorabool's calculations and the correct calculations, and are satisfied that the variation was an administrative error. We note Moorabool's commitment to adjust the 2018-19 capped average rate to reflect the error in the 2017-18 rate notices, and that the council will also improve its internal processes to ensure it complies with the rate cap in future years.

Immaterial non-compliance

Based on the data provided by councils, and rounding the average rate increase to two decimal places, two councils record a minor variation (table 2). The variation for these councils is **negligible** and of no immediate concern.

Table 2 Immaterially non-compliant councils

Council	Average rate cap	Average rate increase	Impact on average ratepayer in 2017-18 ^a
Northern Grampians Shire Council	2.00%	2.02%	\$0.23
Wellington Shire Council	2.00%	2.01%	\$0.14

^a The impact on the average ratepayer is the difference between the capped average rate and the maximum allowable capped average rate.

Northern Grampians Shire Council's statement of explanation

Northern Grampians Shire Council's reported non-compliance with the Minister's set rate cap of 2.00% under the Fair Go Rates system is due to an incorrect interpretation of the reported rates requirements raised at the 1 July 2016 section of the return.

When completing the Essential Services Commission (ESC) budgeted annual compliance information template in May 2017, the template requested the total value of classes of land per the system on 1 July 2016, instead of the total value of classes of land on the day the rates were raised. Due to the timing of Council's reclassification process, the classifications that applied on 1 July 2016 were different to the classifications on the day the rates were raised.

At the time the ESC budgeted annual compliance template was completed, the incorrect values were used (reporting from 1 July 2016) and subsequently when this mistake was realised and the Annual Compliance Information return was completed, the total value of classes of land on the day the rates were raised was used, which resulted in a capped average rate that was \$0.23 over the calculated maximum allowable capped average rate for NGSC.

Council discussed the reporting issue directly with the ESC at the time of submission of the return and it was confirmed that the 1 July 2016 values, as written in the return, were not what was expected to be included.

As part of Council's annual process prior to raising the rates it was determined that the adopted rate in the dollar for the 2017/18 year resulted in a compliant result with the rate cap. The only exceptions were any properties that had a rate differential reclassification.

Council has already changed its internal processing so that its rating system at 1 July and its rating system when the rates are raised will provide the same result going forward, thus eliminating the risk of non-compliance in the future and ensuring a transparent rate cap reporting process for Council's ratepayers going forward.

Council provided feedback to the ESC about the wording in the return when completing its Annual Compliance Information return, hoping to make the relevant information clearer in future.

Although the additional guidance provided by the ESC is helpful, the Fair Go Rates system is a new process and Council feels it is important to provide clarity to Councils in the Return template document.

Wellington Shire Council's statement of explanation

An unexpected level of compulsory acquisitions around the inappropriate subdivision along the 90 Mile Beach occurred in May 2017 after the annual budget setting and approval processes. The impact of these 420 coastal blocks along the 90 mile beach which became non rateable impact the compliance test undertaken at 1st July 2017 on the total remaining assessments. The compliance test determined our average rate for the remaining assessments to be imprecise by .009% rounded to .01%. This is 14 cents per assessment and \$4,600 of revenue on \$53 million required to be raised in 2017/18. The ESC acknowledges it is negligible requiring no further action by council and we accept this outcome.

We are satisfied that the variation was due to factors outside of Wellington's control.

Monitoring waste service rates and charges

Under the Fair Go Rates system, the capped revenue base currently excludes service rates and service charges. Most councils use service rates and service charges to recover waste management costs.

We have committed to monitoring councils' waste service charges to ensure there are no unexplained or unusual increases in these charges.

In 2017-18, Knox City Council introduced a new service charge to recover waste costs. Prior to 2017-18, Knox City Council primarily recovered waste costs through general rates. We analysed data related to its waste costs and also received information about how it consulted the community. We are satisfied that the overall impact on Knox City Council ratepayers is neutral in 2017-18.

Councils planning to introduce waste service charges in 2018-19 should consider our guidance on introducing waste service charges.⁴

We will report more broadly on trends in service rates and charges in our first biennial outcomes report in 2018.

⁴ See section 5.8 of our Fair Go Rates system – Guidance for councils 2018-19.

Next steps

We will release updated guidance in early 2018

We will update our guidance to address common questions from councils and our observations from compliance monitoring this year.

We will also revise the timelines in our guidance to reflect that, from 2018, the annual compliance information will be due to us by **30 September** each year. We consider it is appropriate to bring forward the submission date as many councils were able to submit the annual compliance information to us in August or September this year. Further, this will help councils to phase their reporting requirements as the October submission date coincides with the Victoria Grants Commission return submission date.

We will release the updated guidance and annual compliance information template in early 2018, and will notify councils by email.

We will undertake random audits in future years

The data provided to us in the annual compliance information is not publicly available. In 2016 and 2017, we were unable to independently verify the data. To ensure our compliance monitoring is robust and fair, we will undertake random audits of the data provided by councils in their annual compliance information templates from next year.

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

Appendix A

Table A1 Compliant councils

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 ^a
Baw Baw Shire Council	Hobsons Bay Shire Council
Bayside City Council	Horsham Rural City Council
Benalla Rural City Council	Hume City Council
Boroondara City Council	Indigo Shire Council
Borough of Queenscliffe	Kingston City Council
Brimbank City Council	Knox City Council
Buloke Shire Council	Latrobe City Council
Campaspe Shire Council	Loddon Shire Council
Cardinia Shire Council	Macedon Ranges Shire Council
Casey City Council	Manningham City Council
Central Goldfields Shire Council	Mansfield Shire Council
Colac Otway Shire Council	Maribyrnong City Council
Corangamite Shire Council	Maroondah City Council
Darebin City Council	Melbourne City Council
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
Golden Plains Shire Council	Moonee Valley City Council
Greater Bendigo City Council	Moreland City Council

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

^a Compliant with approved higher cap.