



# HOW COUNCILS SET THEIR RATES

Council Compliance with 2016-17 Rate Caps

December 2016



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## 1. FAIR GO RATES SYSTEM

The Victorian Government's Fair Go Rates System (FGRS) limits the maximum increase in councils' average rates. The term 'average rates' refers to the rates paid by the notional average ratepayer. The amount is calculated by dividing total revenue from general rates and municipal charges, by the total number of rateable properties in the municipality.

Each year the Minister for Local Government (the Minister) sets the average rate cap for the following financial year by general Order.

A council may apply to the Essential Services Commission (the Commission) for a higher cap. If the Commission is satisfied that a higher cap is appropriate for the council, it sets a higher cap by special Order.

A council must comply with any general Order or special Order that applies to it. To comply, the capped average rate must not exceed the base average rate by more than the average rate cap or higher cap.

For the remainder of the report, the Commission refers to the average rate cap or higher cap that applies to a council as the applicable rate cap.

### THE COMMISSION'S ROLE IN REPORTING COMPLIANCE

Under section 10E(1)(a) of the *Essential Services Commission Act 2001* (the ESC Act), the Commission's role is to monitor and review councils' compliance with the caps set under Part 8A of the *Local Government Act 1989*. Under section 10E(2) of the ESC Act the Commission is required to prepare an annual report on councils' compliance with the applicable rate cap.

In December 2015, the Minister set a cap for permissible rate increases in the 2016-17 rating year. The cap limits the average rate of increase allowable for each council, meaning some ratepayers might experience lower increases while others might experience high increases. The Minister's cap was set at 2.5 per cent for 2016-17. Councils typically established their rates for the 2016-17 rating year in June 2016. This compliance report assesses whether councils, in setting their rates in June 2016, have complied with the cap set by the Minister. Where a council sought and received approval from the Commission for an alternative (higher) rate cap, that council's compliance is assessed against the higher cap approved by the Commission.

## 2. 2016-17 COMPLIANCE

For 2016-17, all councils were required to comply with the average rate cap set by the Minister, with the exception of six councils that had a higher cap approved by the Commission. For these six councils, the approved higher caps were:

- Buloke: 3.05 per cent
- Horsham: 3.50 per cent
- Moorabool: 3.50 per cent
- Murrindindi: 4.30 per cent
- Pyrenees: 3.83 per cent
- Towong: 6.34 per cent.

To assess compliance with the applicable rate cap in 2016-17, the Commission:

1. Required councils to submit the Annual Baseline Information<sup>1</sup> by 31 October 2016. As part of the Annual Baseline Information, councils reported their base average rate and capped average rate for 2016-17 (see box 1).
2. Checked that the information reported in the Annual Baseline Information was consistent with the information reported in councils' budgets and annual reports.
3. Reviewed the estimation of the base average rate and capped average rate.
4. Verified that the capped average rate did not exceed the base average rate by more than the applicable rate cap.

The Commission generally regards a council as compliant with the applicable rate cap if the base average rate was formed in good faith and based on reasonable estimates.

The Commission has found all 79 councils to be compliant with the applicable rate cap in 2016-17. These results are presented in Appendix 1.

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<sup>1</sup> The Annual Baseline Information captures a detailed and integrated picture of each council's services, infrastructure and financial position. As discussed in the Guidance Material issued in December 2015, each council is required to submit the Annual Baseline Information to the Commission by 31 October each year.

## **BOX 1      CALCULATING THE BASE AVERAGE RATE AND THE CAPPED AVERAGE RATE**

### **Base average rate**

The base average rate is calculated according to the following formula in the legislation:<sup>a</sup>

#### **BAR = Rb/L where**

- BAR is the base average rate
- Rb is the total annualised revenue leviable from general rates, municipal charges and any other prescribed rates or charges on rateable properties within the council's municipal district as at 30 June in the base year (2015-16).
- L is the number of rateable properties within the council's municipal district as at 30 June in the base year (2015-16).

### **Capped average rate**

The capped average rate is calculated according to the following formula in the legislation:<sup>b</sup>

#### **CAR = Rc/L where**

- CAR is the capped average rate
- Rc is the total annualised revenue leviable from general rates, municipal charges and any other prescribed rates or charges on rateable properties within the council's municipal district as at 1 July in the capped year (2016-17).
- L is the number of rateable properties within the council's municipal district as at 1 July in the capped year (2016-17).

## BOX 1 (CONTINUED)

### Complying with the applicable rate cap<sup>c</sup>

The capped average rate must not exceed the base average rate by more than the average rate cap specified in the general Order or higher cap specified in the special Order.

<sup>a</sup> Section 185B, *Local Government Act 1989*. <sup>b</sup> Section 185C, *Local Government Act 1989*. <sup>c</sup> Section 185D, *Local Government Act 1989*.

## 3. OBSERVATIONS FROM 2016-17

In assessing compliance with the applicable rate cap in 2016-17, the Commission observed differences in how councils reported information and estimated the base average rate and capped average rate in the Annual Baseline Information.

The Commission recognises that the existing legislative definitions may allow some scope in interpreting how to estimate the base average rate and capped average rate. This may account for some of the differences observed, including:

- How cultural and recreational rates and rateable properties were treated.
- How supplementary revenue received in previous years (i.e. before 2015-16) was treated.
- How budgeted general rates, municipal charges, rateable properties and land valuations were reported in the Annual Baseline Information compared to councils' budgets and annual reports.

The Commission has verified that the impacts of these differences were non-material in 2016-17. However, the Commission is of the view that there should be greater consistency in reporting information and estimating the base average rate and capped average rate in the Annual Baseline Information. To address this, the Commission will clarify the above matters in the next update of the Guidance Material.



## 4. COMPLIANCE ASSESSMENT IN 2017-18

For the 2017-18 rate capping year, the Commission intends to update the *Guidance for Councils 2017-18* on the application of the rate cap and the Annual Baseline Information based on our observations from the 2016-17 process. We intend to release the updated guidance and Annual Baseline Information in early 2017. Councils will be notified of the updated materials by email.

## 5. MONITORING OF WASTE SERVICE RATES AND CHARGES

Under the FGRS, service rates and charges are currently excluded from the capped revenue base. The majority of councils use service rates and charges to recover, at least in part, waste management costs.

The Commission has committed to monitoring councils' waste service charges to ensure there are no unexplained or unusual increases in these charges.

In 2016-17, two councils (Mornington Peninsula Shire Council and the Borough of Queenscliffe) introduced new service charges to recover waste costs. Prior to 2016-17, these councils primarily recovered waste costs through general rates. The Commission has met with both councils and has analysed data related to their waste costs and waste costs recovery. The Commission has also received information from these two councils on how they consulted with their respective communities and took account of the feedback. We are satisfied that the overall impact on ratepayers in these two councils is neutral for 2016-17. Councils planning to introduce waste service charges in 2017-18 should consider the Commission's guidance on introducing waste service charges and they should discuss with the Commission any proposed changes.<sup>2</sup>

The Commission also intends to report more broadly on waste service charges in the first biennial outcomes report due by the end of 2018.

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<sup>2</sup> See section 4.9 of the *Commission's Guidance for Councils 2017-18*.



## APPENDIX 1

**TABLE 1 COUNCIL COMPLIANCE WITH 2016-17 APPLICABLE RATE CAPS**

Council	Applicable rate cap (per cent)	Compliance outcome
Alpine Shire Council	2.50	compliant
Ararat Rural City Council	2.50	compliant
Ballarat City Council	2.50	compliant
Banyule City Council	2.50	compliant
Bass Coast Shire Council	2.50	compliant
Baw Baw Shire Council	2.50	compliant
Bayside City Council	2.50	compliant
Benalla Rural City Council	2.50	compliant
Boroondara City Council	2.50	compliant
Brimbank City Council	2.50	compliant
Buloke Shire Council	3.05	compliant
Campaspe Shire Council	2.50	compliant
Cardinia Shire Council	2.50	compliant
Casey City Council	2.50	compliant
Central Goldfields Shire Council	2.50	compliant
Colac Otway Shire Council	2.50	compliant
Corangamite Shire Council	2.50	compliant
Darebin City Council	2.50	compliant
East Gippsland Shire Council	2.50	compliant
Frankston City Council	2.50	compliant
Gannawarra Shire Council	2.50	compliant
Glen Eira City Council	2.50	compliant
Glenelg Shire Council	2.50	compliant
Golden Plains Shire Council	2.50	compliant
Greater Bendigo City Council	2.50	compliant
Greater Dandenong City Council	2.50	compliant
Greater Geelong City Council	2.50	compliant
Greater Shepparton City Council	2.50	compliant
Hepburn Shire Council	2.50	compliant

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**TABLE 1 (CONTINUED)**

<b>Council</b>	<b>Applicable rate cap (per cent)</b>	<b>Compliance outcome</b>
Hindmarsh Shire Council	2.50	compliant
Hobsons Bay City Council	2.50	compliant
Horsham Rural City Council	3.50	compliant
Hume City Council	2.50	compliant
Indigo Shire Council	2.50	compliant
Kingston City Council	2.50	compliant
Knox City Council	2.50	compliant
Latrobe City Council	2.50	compliant
Loddon Shire Council	2.50	compliant
Macedon Ranges Shire Council	2.50	compliant
Manningham City Council	2.50	compliant
Mansfield Shire Council	2.50	compliant
Maribyrnong City Council	2.50	compliant
Maroondah City Council	2.50	compliant
Melbourne City Council	2.50	compliant
Melton City Council	2.50	compliant
Mildura Rural City Council	2.50	compliant
Mitchell Shire Council	2.50	compliant
Moira Shire Council	2.50	compliant
Monash City Council	2.50	compliant
Moonee Valley City Council	2.50	compliant
Moorabool Shire Council	3.50	compliant
Moreland City Council	2.50	compliant
Mornington Peninsula Shire Council	2.50	compliant
Mount Alexander Shire Council	2.50	compliant
Moyne Shire Council	2.50	compliant
Murrindindi Shire Council	4.30	compliant
Nillumbik Shire Council	2.50	compliant
Northern Grampians Shire Council	2.50	compliant
Port Phillip City Council	2.50	compliant
Pyrenees Shire Council	3.83	compliant

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**TABLE 1 (CONTINUED)**

<b>Council</b>	<b>Applicable rate cap</b> <b>(per cent)</b>	<b>Compliance outcome</b>
Borough of Queenscliffe	2.50	compliant
South Gippsland Shire Council	2.50	compliant
Southern Grampians Shire Council	2.50	compliant
Stonnington City Council	2.50	compliant
Strathbogie Shire Council	2.50	compliant
Surf Coast Shire Council	2.50	compliant
Swan Hill Rural City Council	2.50	compliant
Towong Shire Council	6.34	compliant
Wangaratta Rural City Council	2.50	compliant
Warrnambool City Council	2.50	compliant
Wellington Shire Council	2.50	compliant
West Wimmera Shire Council	2.50	compliant
Whitehorse City Council	2.50	compliant
Whittlesea City Council	2.50	compliant
Wodonga City Council	2.50	compliant
Wyndham City Council	2.50	compliant
Yarra City Council	2.50	compliant
Yarra Ranges Shire Council	2.50	compliant
Yarriambiack Shire Council	2.50	compliant