

Council Rate Cap Compliance 2024–25

3 December 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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Introduction

The Essential Services Commission monitors and reports on Victorian councils' compliance with rate caps under the Fair Go Rates system (see Appendix A and B for more information).

This report outlines:

- whether each council, in setting its rates for 2024–25, was compliant with the average rate cap or a higher cap (if applicable)
- changes to service rates and charges for 2024–25.

Compliance with the rate caps for 2024–25

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. It 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 the Essential Services Commission for a higher cap. If we are satisfied that the proposed higher cap meets legislative requirements, we set a higher cap by special order. No councils applied for a higher cap for 2024–25. The last application for a higher cap was received in 2019–20.

To comply with the rate cap, the percentage change in a council's average rates must not exceed the rate cap specified in a general order or special order that applies to it.¹

All councils complied with the rate cap

Based on the data councils provided to us in the annual compliance information for 2024–25, all councils complied with the average rate cap.

The Minister for Local Government set the average rate cap at 2.75 per cent for the 2024–25 rating year, which all councils were required to comply with. Most councils set their rate increase to 2.75 per cent. However, one council decided not to increase its rate (Ararat Rural City Council).

Each council's compliance information is certified as accurate by the council's chief executive officer. 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.

Councils followed different processes to amend their rates after adopting their budgets

Councils are required to declare their rates and adopt their budgets by 30 June of each year. To ensure they are compliant with the rate cap, some councils amend their rates in the dollar or municipal charges after adopting their budgets.² Councils do this when unexpected valuation

¹ The definition for the average rates is shown in Appendix A.

² A property's general rates are calculated by multiplying the valuation of 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. Similarly, if a council decreases its municipal charge, it decreases its municipal charge revenue and average rates.

changes or other calculation errors mean that the rate initially set would not comply with the rate cap.

In 2024–25, four councils changed their rate in the dollar or municipal charge to ensure they were compliant with the rate cap. We note that these councils followed different processes in resetting their rates:

- Swan Hill Rural City Council redeclared its rates in a council meeting.
- Towong Shire Council and Warrnambool City Council both changed their rate in the dollar by amending their budgets and publishing the revised budgets on their websites.
- West Wimmera Shire Council adjusted both its rate in the dollar and its municipal charge in a council meeting.

These councils provided the commission with evidence to show that the amounts levied on their communities were compliant with the rate cap. It is the responsibility of councils to ensure that the process they follow to amend their rates meets the requirements of the *Local Government Act 2020*.

Changes to individual rate notices may be different from the rate cap

As the rate cap calculation is based on the increase in average rates, a council can comply with the rate cap even if individual ratepayers experience increases in their 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 how a property is classified. For example, whether it 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 not included in the rate cap, such as service charges (which include charges such as those for waste), may increase or decrease. The rate cap applies to general rates and municipal charges only.

Service rates and charges in 2024–25

Service rates and charges are not included in the rate cap. We monitor and report on councils that change the structure of their service rates and charges. This helps us identify any unexplained or unusual increases in service rates and charges revenue. Service charges are flat charges and services rates are applied against the value of the ratepayer's property. We report more broadly on trends in service rates and charges in our biennial outcomes report.³

All councils used service rates or charges to recover waste management costs

The *Local Government Act 1989* allows for councils to levy a service rate or charge for waste, recycling and/or resource recovery services. Starting from 2023–24, all 79 councils have adopted either service rates or charges to recover waste management costs. This was the first year every council levied service rates or charges to either partially or fully recover the cost of kerbside collection and community waste services. However, the level of cost recovery through service charges varies across councils, with some councils having transitioned fully to service charges for waste recovery, while some others are still using general rates to recover a portion of their waste costs.

Kerbside collection includes any service provided by the council in which waste is collected from the kerbside. The nature and frequency of these services vary from council to council, with each council offering some combination of general waste, general recycling, food organic and garden organic, glass recycling and hard rubbish collections. The Victorian Government has mandated that all councils must offer a glass recycling service by 2027 and a food organic and garden organic service by 2030. We are increasingly seeing councils rollout these additional services ahead of these deadlines.⁴

Some councils also use service rates and charges to recover the costs of delivering community waste services. Community waste services is a broad term that includes services to keep public spaces clean, such as the provision and maintenance of public bins, street sweeping and litter removal.

From 1 March 2024, the Minister's Good Practice Guidelines for the use of Service Rates and Charges came into effect, and councils are expected to move towards compliance with the

³ Our Outcomes Report is published every two years and is available on our website at <https://www.esc.vic.gov.au/local-government/rate-capping-outcomes-reports>. Our upcoming Outcomes Report is scheduled for publication in May 2025.

⁴ More information about the state government's new four bin system can be found at <https://www.vic.gov.au/new-recycling-laws-and-governance>.

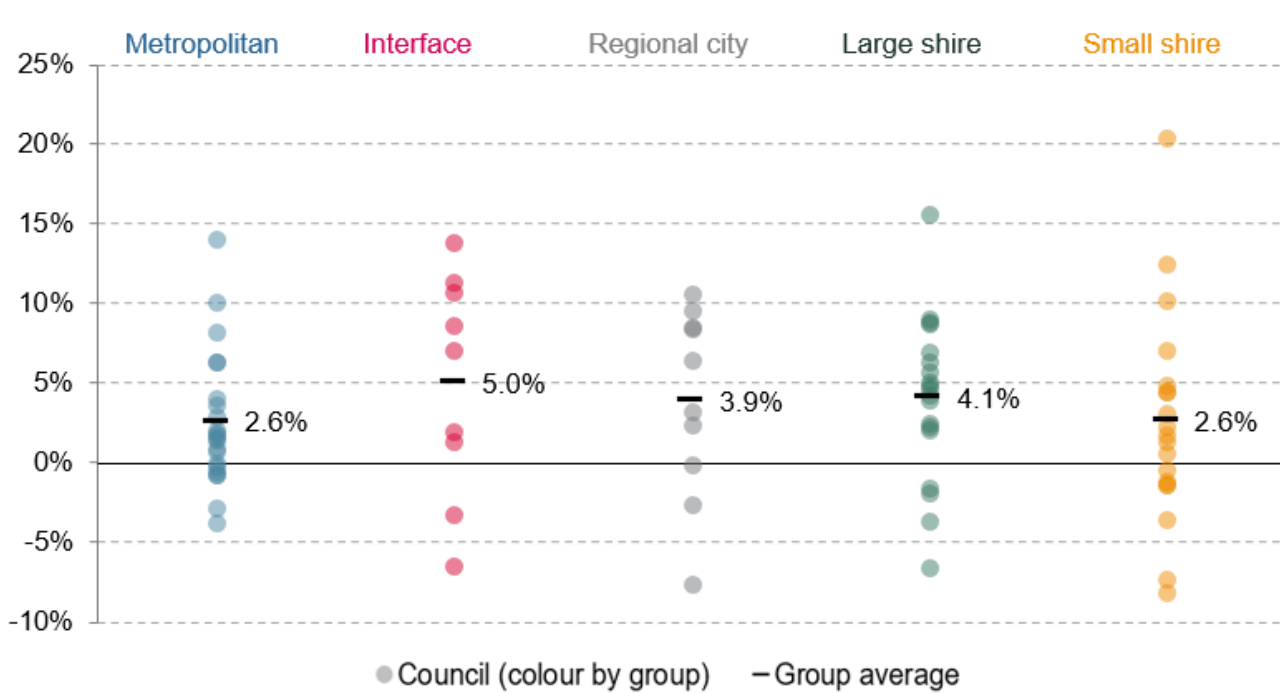
guidelines. As a result, this may have an impact on how councils set their service rates and charges.

The cost recovery of household collection services varies in terms of service level (for example, by bin size and collection frequency) and whether the charge fully or partially recovers waste costs.

Overall, councils are budgeting to increase service rates and charges revenue to \$1.26 billion in 2024–25. This is an average annual increase of 3.2 per cent per rateable property for the sector, a significant decrease compared to last year’s 16.7 per cent increase. This reduction is likely influenced by a range of factors. Some councils identified the Minister’s Good Practice Guidelines as a contributing reason. They also considered the introduction of new services (e.g., food organic and garden organic and glass recycling) and changes in the waste levy as drivers of costs.

We continue to observe that the annual change in service rate or charge revenue per property varies across councils, ranging from an 8.2 per cent decrease (Mansfield Shire Council) to a 20.4 per cent increase (Borough of Queenscliff Council). This range is narrower than in the previous year.

Figure 1 Annual increase in service rates and charges per rateable property



Notes: Percentage changes are calculated using nominal dollars, unadjusted for inflation.

Data sources: Council annual budgets 2024–25.

Five councils introduced new service charges

Each year, we report on the introduction of new service rates or charges to ensure that councils moving revenue between general rates and municipal charges (capped revenue) and service rates and charges (uncapped revenue) are transparent and accountable to their ratepayers.

Councils can introduce new service rates or charges in several situations, such as to:

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

For 2024–25, no councils fit into categories 1 or 2, while five councils introduced new service charges in addition to those levied in 2023–24 (category 3).

Greater Shepparton City Council

Greater Shepparton City Council introduced a service charge for the rollout of its glass recycling service. The service charges reflect the implementation of Stage 2 of Council's Kerbside Transition Plan. Previously waste and recycle bins have been charged as a bundle. From 2024–25, each waste stream will have an individual charge declared. Council consulted with its community as part of the budget process.

Hepburn Shire Council

In April 2024, Hepburn Shire Council introduced a weekly kerbside collection service for food and garden organics for township residents. For the 2023–24 financial year, the service was funded through its Waste Reserve Fund, meaning ratepayers did not incur any direct costs until 1 July 2024. Council collaborated with its community, engaging 400 residents in consultation and co-designing the service rollout.

Mansfield Shire Council

Mansfield Shire Council introduced a service charge for the rollout of its food organic and garden organic service in urban areas. Council consulted with its community through surveys in 2022–23 and 2023–24 to inform the frequency of the service and the township areas included. Following community consultation undertaken in 2022–23, council decided not to implement the glass service until 2027.

Mildura Rural City Council

Mildura Rural City Council introduced a service charge for the rollout of its glass recycling service. In its Ordinary Council Meeting in October 2022, councillors voted in favour to introduce this service. The meeting was open to the public and streamed live on the council's website.

Towong Shire Council

Towong Shire Council introduced three service charges for the rollout of its food organic and garden organic service for three different bin size options. In its Ordinary Council Meeting in March 2024, council noted that the community education package includes digital and print material along with a program for the delivery of community engagement activities in the months leading up to the launch of the service.

Next steps

Updated compliance guidance

We will release an updated annual compliance information template and guidance for councils on complying with the rate cap in early 2025. 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.

Information for ratepayers

Visit our website for more information on our role under the Fair Go Rates system or to access past compliance reports www.esc.vic.gov.au/local-government.

Appendix A: How average rates are calculated

Base average rate^a

BAR = R_b/L where

- BAR is the base average rate
- R_b is the total annualised revenue leviable from general rates and municipal charges as at 30 June in the base year (2023–24)
- L is the total number of rateable properties as at 30 June in the base year (2023–24)

Capped average rate^b

CAR = R_c/L where

- CAR is the capped average rate
- R_c is the total annualised revenue leviable from general rates and municipal charges as at 1 July in the capped year (2024–25)
- L is the total number of rateable properties as at 1 July in the capped year (2024–25)

^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*, 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.