



Council Rate Cap Compliance 2023–24

Compliance Report

22 November 2023



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 the 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 2023–24, was compliant with the average rate cap or a higher cap (if applicable)
- changes to service rates and charges for 2023–24.

Compliance with the rate caps for 2023–24

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 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. No councils applied for a higher cap for 2023–24, with the last application for a higher cap 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 2023–24, all councils complied with the average rate cap.

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.

The Minister for Local Government set the average rate cap at 3.50 per cent for the 2023–24 rating year, which all councils were required to comply with. Nine councils budgeted for a rate increase of less than the rate cap, with these lower increases ranging from 0.00 per cent to 3.25 per cent.

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

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

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 that are 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.

Rebates, waivers, and deferrals do not affect the rate cap

The rate cap is calculated using the maximum leviable amounts councils can raise each year. Councils' actual rates and charges income can be lower than the maximum leviable amount if councils provide rebates, deferrals, or waivers, or if ratepayers do not pay their rates for other reasons.

This means that the decision to remove or expand rebate programs does not affect a council's compliance with the rate cap. For example, many councils introduced rebates during the coronavirus pandemic to provide financial relief to households. The way the rate cap operates allowed councils to provide this financial relief without affecting how their rate base would grow in the long term.

Service rates and charges in 2023–24

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 rates applied against the value of the ratepayer's property. We report more broadly on trends in council rates and charges in our biennial outcomes report.²

All councils now use service rates or charges to recover waste costs

The *Local Government Act 1989* allows for councils to levy a service rate or charge for waste, recycling and/ or resource recovery services. 2023–24 marks the first year in which all 79 councils levy either service rates or charges to either partially or fully recover the cost of kerbside collection and community waste services, with three councils (Hume City Council, Whitehorse City Council and Yarra City Council) implementing service rates or charges for all ratepayers for the first time.

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 so we are increasingly seeing councils roll out these additional services ahead of these deadlines.³

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.

We observe that councils take different approaches in how they fund waste services:

- 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.
- Some councils use waste charges to only recover the costs of household collection services while others have adopted different, and in some cases very broad definitions of waste services. These broad definitions often include services to keep public spaces clean such as street cleaning, public bins, and litter collection.

² 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>

³ 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>

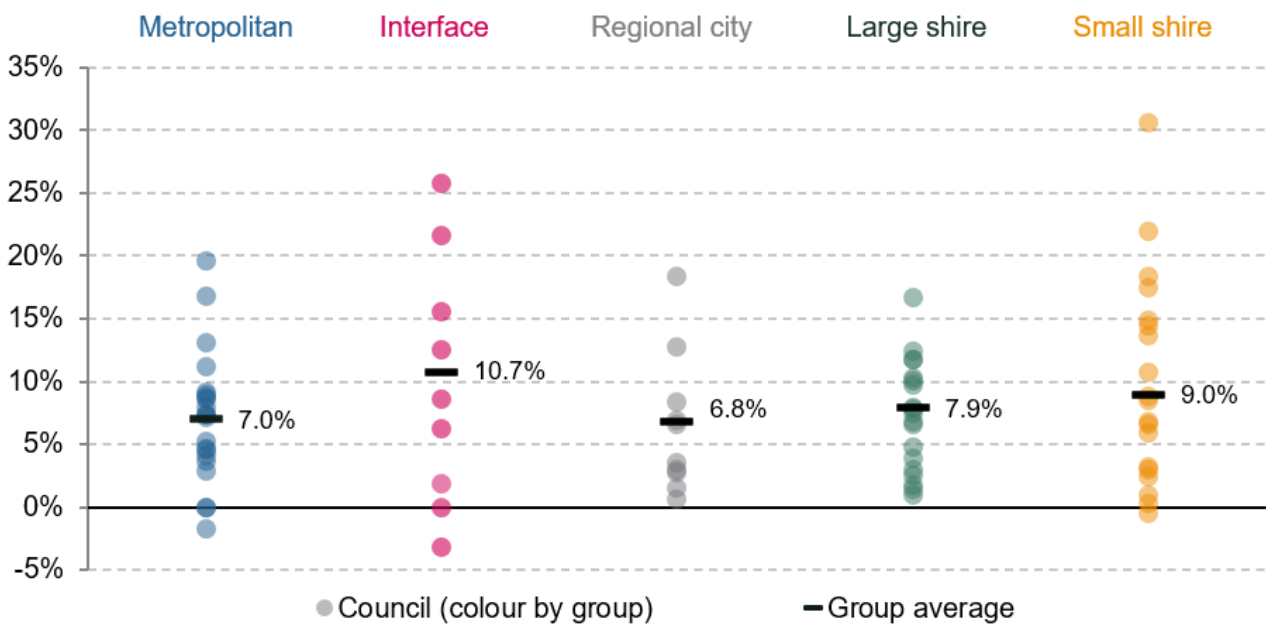
- Some councils use service rates (based on the value of the property) rather than charges (flat fees per property) for kerbside waste collection. As a result, different properties can be charged different amounts for the same service.

Overall, councils are budgeting to increase service rates and charges revenue to \$1.2 billion in 2023–24. This is an average annual increase of 16.7 per cent per rateable property at a time when general rates and charges were limited to an increase of 3.5 per cent.

The annual change in service rate or charge revenue per property varies by council, with an average increase of 8 per cent and a range from a 7 per cent decrease (Merri-bek City Council) to a 31 per cent increase (Yarriambiack Shire Council), excluding those who introduced service rates or charges for the first time.

While this is a rapid increase in the cost paid by ratepayers for waste services, the cost to councils to deliver these waste services has also been increasing. The increase in waste charges reflects the introduction of new service charges for kerbside waste collection and broader changes in the market (e.g., loss of service providers, expansion of services and increase in the waste levy) that have increased waste costs.

Figure 1: Annual Increase in Service Rates and Charges Per Rateable Property



Notes: Percentage changes are calculated using nominal dollars, unadjusted for inflation. The three councils which introduced service rates or charges for all rateable properties for the first time have been excluded due to them having no data for 2022–23.

Data sources: Council annual budgets 2023–24

Fourteen councils introduced new service rates or 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.

For 2023–24, three councils introduced service rates or charges for all ratepayers for the first time (Hume City Council, Whitehorse City Council and Yarra City Council). Eleven other councils introduced new service rates or charges in 2023–24 in addition to or in lieu of the service rates or charges they levied in 2022–23.

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.

In the first situation above, we expect the new service rates or charges to be revenue neutral. A service rate or charge is revenue neutral if the revenue gained from the introduction of it is offset by an equivalent reduction in general rates and charges.

In the second and third situations above, we expect the new service rates or charges to be cost reflective. A service rate or charge is cost reflective if the cost to council for providing the service is equal to or greater than the revenue earned from the service rate or charge.

When we look at revenue neutrality and cost reflectivity, we are only looking at the new service rates or charges at a point in time. We do not monitor the revenue neutrality and/ or cost reflectiveness of these service rates or charges on an ongoing basis. There is no ongoing external oversight of how council's recover the costs of providing waste services.

Alpine Shire Council

Alpine Shire Council introduced a service charge for the rollout of its food organic and garden organic service. Council provided evidence that suggests this new charge is cost reflective. Council consulted the community through two surveys, one in 2019 and one in 2023, and as part of its planning and budget process, seeking community views to help guide the implementation of its food organic and garden organic service.

Darebin City Council

Derbin City Council introduced five new service charges: four were to provide additional bin size options and one was a kerbside waste charge to be levied on small businesses. Council provided evidence that suggests these new charges are cost reflective. Council consulted with its community as part of the budget process.

Greater Bendigo Rural City Council

Greater Bendigo Rural City Council introduced twelve new service charges to reflect additional recycling and organic waste collection options in specific commercial areas. Council provided evidence that suggests these new charges are cost reflective. Council consulted with its community as part of the budget process.

Hume City Council

Hume City Council introduced a kerbside waste service charge, a public waste service charge (residential) and a public waste service rate (non-residential) for the first time. Council provided evidence that suggests the introduction of these rates and charges is not revenue neutral but is cost reflective. Council consulted the community through a survey in late 2021 during the development of its Waste Strategy. Further consultation occurred during the budget development process in early 2023, with several submissions directly related to the introduction of these rates and charges received.

Knox City Council

Knox City Council introduced five new service charges: three were additional residential bin bundle options and two were new industrial/ commercial waste collection options. Council provided evidence that suggests these new charges are cost reflective. Council consulted with its community in late 2022 through online channels, surveys, pop-up sessions, focus groups and via email during the development of its Waste Strategy. Further consultation occurred during the budget development process in early 2023.

Manningham City Council

Manningham City Council introduced two new service charges for larger garbage bins. Council provided evidence that suggests these new charges are cost reflective. Council consulted with its community as part of the budget process.

Merri-bek City Council

Merri-bek City Council restructured their service charges from 12 options to 19 different options to accommodate the rollout of the four-bin system (household rubbish, mixed recycling, food organic and garden organic and glass recycling). Council provided evidence that suggests these new charges are cost reflective. Council consulted with its community through workshops, phone drop-in sessions and surveys in 2020–1 while in the process of developing its Kerbside Waste Service and Charge Policy. Further consultation occurred during the budget development process in early 2023.

Stonnington City Council

Stonnington City Council introduced three new service charges: one for an additional recycling bin and two for new shared bin options. Council provided evidence that suggests these new charges are cost reflective. Council consulted with its community as part of the budget process.

West Wimmera Shire Council

West Wimmera Shire Council introduced a service charge for the rollout of its glass recycling service. Council provided evidence that suggests this new charge is cost reflective. Council consulted with its community as part of a council meeting in November 2022 and again through the budget process in early 2023. The change was advertised on council's website and in local newspapers.

Whitehorse City Council

Whitehorse City Council introduced a kerbside waste service charge, a public waste service charge (residential) and six supplementary bin service charges for the first time. Council provided evidence that suggests these new charges are revenue neutral and cost reflective. Council consulted with the community regarding the rising cost of waste through three stages of consultation in 2022, engaging with the community through engagement pop ups, formal workshops and community surveys. Further consultation occurred during the budget development process in early 2023.

Whittlesea City Council

Whittlesea City Council introduced three new service charges, each relating to the landfill levy but for three different property types. Council provided evidence that suggests these new charges are cost reflective. Council consulted with its community as part of the budget process.

Yarra City Council

Yarra City Council introduced a kerbside waste service rate and a public waste service rate for the first time. Council provided evidence that suggests these new rates are revenue neutral and cost reflective. Council consulted with the community regarding the introduction of waste service rates through its “Your Say Yarra” website (which allows community members to leave comments and/or ask questions) and both online and in-person engagement events. The proposed changes were communicated to the community via social media, council newsletters, council’s website and mail-outs to ratepayers.

Yarra Ranges Shire Council

Yarra Ranges Shire Council restructured their service charges from 24 options to 39 different options to accommodate the introduction of their food organic and garden organic service. Council provided evidence that suggests these new charges are cost reflective. Council consulted with the community through a community waste survey in 2021 which led to the development of its Community Waste and Resource Plan. During the development of this plan in 2022 further community consultation occurred, with 88 community submissions received during this process. Further consultation occurred during the budget development process in early 2023.

Yarriambiack Shire Council

Yarriambiack Shire Council introduced a service charge for the rollout of its glass recycling service. Council provided evidence that suggests this new charge is cost reflective. Council consulted with the community regarding the introduction of glass recycling through both online and in-person engagement events, with written submissions being sought via an online form or letters to the CEO. Further consultation occurred during the budget development process in early 2023

Next steps

Updated compliance guidance

We will release the updated annual compliance information template and guidance for councils on complying with the rate cap in early 2024. 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 (2022–23)
- L is the total number of rateable properties as at 30 June in the base year (2022–23)

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 (2023–24)
- L is the total number of rateable properties as at 1 July in the capped year (2023–24)

^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.