Ratings Practices in Local Government

Victorian Auditor-General's Report

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Rating Practices in Local Government

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Victorian Auditor-General's Office

Auditing in the Public Interest

The Hon. Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Ken Smith MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on the performance audit, *Rating Practices in Local Government*.

Yours faithfully

Dr Peter Frost
Acting Auditor-General

20 February 2013

Contents

Audit summary

Victoria's 79 councils rely heavily on the revenue generated by property-based rates and charges to provide services to local communities. In 2011–12 councils generated operating revenue of $8.18 billion, with rates and charges accounting for $4.09 billion, or 49 per cent, of the total.

Between 2001–02 and 2009–10, mean rates per property assessment in Victoria increased by an average of 6.3 per cent each year. This exceeded the average 2.9 per cent per year growth in the Consumer Price Index and the average 4.8 per cent per year growth in the Local Government Cost Index, which the Municipal Association of Victoria (MAV) uses to forecast the movement of council costs associated with wages and construction.

In determining and declaring rates and charges annually, councils must operate within the requirements of the *Local Government Act 1989* (the Act). Guidance material has also been developed to assist councils, including the *Developing a Rating Strategy: A Guide for Councils* and the *Victorian City Council Model Budget 2012–13.*

This audit examined the adequacy of local council rating practices, and assessed whether councils had:

- developed and applied a sound strategic framework for making rating decisions
- adequately informed councillors and ratepayers about rate change proposals
- taken sufficient account of ratepayers' feedback on their proposals before finalising rates
- been provided with sufficient guidance to understand how to apply legislated objectives and measure performance.

Conclusions

While councils work within a common rating framework comprising the Act and existing sector guidance, these lack clarity, detail and direction. In addition, the guidance material does not reflect all current practices or recent changes to the Act. This has contributed to inconsistencies in the rating practices of councils and the quality and soundness of council rating decisions. The Department of Planning and Community Development does not proactively support or guide councils and cannot provide assurance that the legislation is being applied by councils as required.

There is limited assurance that all councils:

- systematically and rigorously consider the information and evidence needed to adequately understand the impact of their rating proposals on their communities
- adequately consider the principles of stability, equity, efficiency and transparency in their rating decisions, although this is difficult due to rating framework issues
- consistently calculate, and transparently report, key rates and charges data in a manner that allows scrutiny of decisions, and comparability between councils.

Councils primarily rely on their annual budget development process to engage ratepayers about rating decisions. While they do respond to ratepayer submissions as part of this process, they do not always adequately explain how they have considered their issues in the rate setting process. Councils also undertake a range of other communication and engagement activities, and while there are some examples of good practice, more effective communication and engagement strategies are needed.

The reporting of rates and charges data should be improved and standardised so that it is used consistently across all municipalities, and ratepayers and the general community can readily interpret the data.

It is also timely to review the Local Government Cost Index so that there is a valid and accepted measure in the local government sector that provides a benchmark against which rates and charges movements can be reasonably compared.

Findings

Framework for council rates and charges

Assessing council compliance with the key rating principles and objectives outlined in the Act is problematic because of the lack of definitions and clarity. Councils generally comply with the formal rate reporting requirements in the Act, such as disclosure of the specifics of rate structures and the amount of the rates they set.

The Rating Strategy Guide provides some useful guidance in applying the rating sections of the Act, but has some deficiencies. It has not been updated since 2004 and does not adequately reflect current council best practice or current legislative requirements.

Applying the rating framework

There is considerable variation in the way councils apply the statutory rating principles and objectives, and adhere to guidance material. Recent legislative changes aim to address part of this problem in relation to differential rates.

Each council's budget must contain the council's rate proposals and ratepayers may raise queries or objections about these. Council consideration and responses to submissions were variable and could be improved.

Nine of the 12 audited councils had a current rating strategy, an important document which both records and sets out the basis of council decisions on rates and charges. These strategies varied considerably in their completeness and quality. Key considerations and drivers behind rating decisions were often not clearly identified in either rating strategies or council budgets.

Ratepayer engagement and communications

Council engagement and communication with ratepayers on rating decisions and rate matters varied significantly in depth and quality. Councils do not provide sufficient or consistent information to ratepayers about their rating decisions. While there are some examples of good practice in this area, there are opportunities for improvement.

Monitoring of rating compliance and council support

A lack of appropriate guidance contributes to the variable quality in rating practices identified among the audited councils, but oversight of council practices is also an important factor. In this regard, Local Government Victoria does not provide proactive support to councils on their rating practices, or monitor and report on their performance—including their compliance with the Act.

Recommendations

Number	Recommendation	Page
	The Department of Planning and Community Development should:	
1.	clarify and standardise key data reporting requirements relating to rates and charges for councils	16
2.	in consultation with the Municipal Association of Victoria, review the adequacy of the Local Government Cost Index and encourage the use of an agreed benchmark by councils in the annual reporting of their rates and charges	16
3.	consider how best to achieve the objectives of the *Local Government Act 1989* with regard to council rates and charges, including reviewing the adequacy of the *Local Government Act 1989* and existing sector guidance material	26
4.	establish a framework to monitor and report on council compliance with the *Local Government Act 1989* with regard to rates and charges, which is supported by relevant and appropriate performance measures and targets, and public reporting against key performance measures	26
5.	communicate to councils Local Government Victoria's role in the provision of guidance and support to them in rating practices, and clarify Local Government Victoria's expectations of council rating practices and activities	26
6.	consider making rating strategies mandatory and providing updated guidance regarding their content, frequency of review, and how ratepayers should be engaged.	34

Recommendations – *continued*

Number	Recommendation	Page
	Councils should:	
7.	periodically conduct a comprehensive review of their rating strategies	34
8.	comply with the requirements of the *Local Government Act 1989* relating to responding to submissions on the rate proposals in their budgets	40
9.	develop and implement comprehensive ratepayer communication and engagement strategies that include: • information and reporting on how rating decisions are made, their implications for ratepayers, and the expected outcomes • the use of a range of communication tools appropriate to the local community • details of how the effectiveness of their ratepayer engagement and communication activities will be assessed and reported.	40

Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Planning and Community Development and to the following 12 councils, with a request for submissions or comments:

- Baw Baw Shire Council
- Benalla Rural City Council
- City of Boroondara
- City of Casey
- City of Greater Dandenong
- City of Greater Geelong
- Darebin City Council
- Maribyrnong City Council
- Melton City Council
- Murrindindi Shire Council
- City of Greater Shepparton Council
- Shire of Campaspe.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments are included in Appendix A.

1 Background

1.1 Introduction

Victoria's 79 councils rely heavily on the revenue generated by property-based rates and charges to provide services to local communities. In 2011–12 councils generated operating revenue of $8.18 billion, with rates and charges accounting for $4.09 billion, or 49 per cent, of the total. For the remaining revenue, government grants contributed 22 per cent, user fees and charges 13 per cent, developer contributions 11 per cent, and 5 per cent came from other sources.

Between 2001–02 and 2009–10, mean rates per property assessment in Victoria increased by an average of 6.3 per cent each year. This exceeded the average 2.9 per cent per year growth in the Consumer Price Index and the average 4.8 per cent per year growth in the Local Government Cost Index, which the Municipal Association of Victoria (MAV) uses to forecast the movement of council costs associated with wages and construction.

Local councils have statutory obligations and a responsibility to ratepayers to apply a robust and strategic approach to the collection of revenue through rates and charges. Applying such an approach to the preparation of annual budgets, rating strategies and the setting of rates and charges, is becoming increasingly important, particularly given rising financial pressures on councils.

1.2 Rates and charges

Municipal rates and charges are a form of property tax that fund council activities. The types of rates and charges councils can set include:

- **general rates**—applied as a percentage of each property's valuation with provision to apply either a uniform rate, or differential rates for different property classes, such as farms and commercial enterprises
- **a flat rate municipal charge**—on all properties to cover some of their administrative costs
- **service rates or charges**—for services to properties, such as waste management and water
- **special rates or charges**—for ratepayers specially benefiting from a service or investment, such as road or footpath works that benefit properties in a particular location.

Property values are used to calculate how much each property owner will pay, and each council must choose from one of the following three property valuation methods for its municipality:

- **capital improved value**—which reflects the value of the land and all fixed improvements, including fixtures
- **net annual value**—which reflects the annual rental value of the property net of fixed costs
- **site value**—which reflects the value of land only.

Seventy-three of Victoria's 79 councils use the capital improved value method to calculate property rates, while the remaining six use the net annual value method.

1.3 Victoria's framework for council rates

Local Government Act 1989

The *Local Government Act 1989* (the Act) stipulates that the primary objective of a council is to endeavour to achieve the best outcomes for the local community while considering the long-term and cumulative effects of decisions. In seeking to achieve its primary objective, a council must have regard to a number of facilitating objectives, including:

- promoting the social, economic and environmental viability and sustainability of the municipal district
- ensuring that resources are used efficiently and effectively and services are provided in accordance with best value principles to best meet the needs of the local community
- improving the overall quality of life of people in the local community
- promoting appropriate business and employment opportunities to ensure that services and facilities provided by the council are accessible and equitable
- ensuring the equitable imposition of rates and charges
- ensuring transparency and accountability in council decision-making.

Under the Act, councils are required to develop planning and accountability reports, as shown in Figure 1A. These reports provide a range of information related to the setting of their rates and charges.

Figure 1A
Local government planning and accountability reports

Report title	Contents	Requirements
Council Plan	Includes the strategic objectives of the council, strategies for achieving the objectives for at least the next four years, indicators to monitor the achievement of these, and a Strategic Resource Plan.	Provided to the Minister for Local Government either within six months of a general election or by the next 30 June (whichever is later).
Strategic Resource Plan	Sets out the required financial and non-financial resources for at least the next four years to achieve the strategic objectives in the Council Plan.	Must be reviewed during preparation of the Council Plan and adopted no later than 30 June each year.
Annual Budget	Prepared each financial year. Contains standard statements, a description of the activities and initiatives to be funded and how they will contribute to achieving the strategic objectives in the Council Plan. Must identify key strategic activities and related performance targets and measures and set out details of rates and charges according to the Act and regulations.	Provided to the Minister for Local Government by 31 August each year.

Source: Victorian Auditor-General's Office based on information from the *Local Government Act 1989*.

Local Government (Finance and Reporting) Regulations 2004

The *Local Government (Finance and Reporting) Regulations 2004* are derived from the Act and set out the information to be disclosed in councils' annual budgets in relation to rates and charges.

Valuation of Land Act 1960

For the purpose of the *Local Government Act 1989* and its rating provisions, the *Valuation of Land Act 1960* is the principal Act that relates to determining property valuations.

Developing a Rating Strategy: A Guide for Councils and *A Rating Strategy: An Example*

In 2004, the Department of Planning and Community Development's (DPCD) predecessor—the Department for Victorian Communities—and MAV published a best practice guide to provide councils with guidance on how to apply the legislation.

The guide, *Developing a Rating Strategy: A Guide for Councils,* and its companion, *A Rating Strategy: An Example*, set out a process for developing a rating strategy and provide an example based on a fictional council.

Victorian City Council Model Budget 2012–13

The *Victorian City Council Model Budget 2012–13* is a best practice guide produced by the Institute of Chartered Accountants in Australia (ICAA) to assist Victorian councils to prepare their annual budgets. This is the 10th edition of this guide which was initially produced as a result of a 2001 ICAA report that was critical of the quality and content of Victorian local government budget reporting. The guide includes information and approaches that councils should consider using in their rating strategies in the context of their annual budgets.

1.4 Roles and responsibilities

1.4.1 Local Government Victoria

Local Government Victoria, a division of DPCD, supports and advises the Minister for Local Government in administering the Act. Its role includes overseeing, supporting and encouraging the system of local government, and providing advice and support to councils in relation to their roles and responsibilities under the Act, such as governance, electoral matters, and resource management matters.

1.4.2 Local Government Investigations and Compliance Inspectorate

Local Government Victoria's responsibility for enforcement of the Act by councils was transferred to the newly created Inspectorate in August 2009. A key role of the Inspectorate is to promote voluntary compliance with the requirements of the Act and encourage best practice, accountability and transparency in local government.

The Inspectorate conducts compliance audits of all Victorian councils, including spot audits, and investigates complaints of alleged breaches of the Act. The Inspectorate's 2010–13 audit program indicates compliance audits cover some sections of the Act related to rates and charges, including sections covering:

- the preparation and adoption of a budget or revised budget
- rateable land
- payment of rates and charges
- arrangements for selling land to recover unpaid rates or charges.

1.4.3 Local councils

Local council activities are diverse and extensive. Councils deliver a wide range of services to their communities that include child and family day care services, meals on wheels, waste collection, planning and recreational services. Councils also build and maintain community assets and infrastructure—including roads, footpaths and drains—and enforce various laws. The rates and charges that councils apply to rateable land assist with funding these activities.

1.4.4 Valuer-General Victoria

Under the *Valuation of Land Act 1960*, councils are responsible for revaluing properties every two years. The Valuer-General Victoria independently oversees this process to provide assurance that statutory requirements and best practice standards have been met. The Valuer-General Victoria is part of Land Victoria within the Department of Sustainability and Environment.

While most councils employ or contract valuers to conduct a review of property values as part of their statutory requirements, councils have had the option to transfer responsibility to the Valuer-General for completing rating authority valuations since 2010.

1.5 Audit objective and scope

The objective of the audit was to determine the adequacy of rating practices by local councils. Specifically, the audit assessed whether a selection of councils had:

- developed and applied a sound strategic framework for making rating decisions
- adequately informed councillors and ratepayers about rate change proposals
- taken sufficient account of ratepayer feedback on their proposals before finalising rates
- been provided with sufficient guidance to understand how to apply legislated objectives and measure performance.

The audit included Local Government Victoria within the Department of Planning and Community Development and the following 12 councils:

- Baw Baw Shire Council
- Benalla Rural City Council
- City of Boroondara
- City of Casey
- City of Greater Dandenong
- City of Greater Geelong
- Darebin City Council
- Maribyrnong City Council
- Melton City Council
- Murrindindi Shire Council
- City of Greater Shepparton Council
- Shire of Campaspe.

1.6 Method and cost

The audit was conducted in accordance with section 15 of the *Audit Act 1994* and Australian Auditing and Assurance Standards. Pursuant to section 20(3) of the *Audit Act 1994*, any persons named in this report are not the subject of adverse comment or opinion.

The cost of the audit was $495 000.

1.7 Structure of the report

- Part 2 discusses rating outcomes.
- Part 3 examines Victoria's rating framework.
- Part 4 looks at how councils apply that framework.
- Part 5 assesses how councils engage with and communicate to their ratepayers about their rating decisions.

2 Rating outcomes

At a glance

Background

Sound council rating practices and decisions should result in rates and charges that are reasonable, reflective of the service needs and financial capacity of the local community, transparent, easy to comprehend, and conform with legislative requirements.

Conclusion

Average council rates and charges vary considerably across municipalities. Total revenue from rates and charges has also varied, increasing at a similar rate for rural and inner metropolitan councils, but at a greater rate for outer metropolitan councils. Inner metropolitan councils show the highest dependence on rates and charges as a proportion of total council revenue.

Councils are generally dissatisfied with the existing Local Government Cost Index used as a benchmark to measure rate increases. The Municipal Association of Victoria, which publishes the index, recognises its inadequacies. The use of standardised rates and charges data, and an agreed cost benchmark, would help provide greater consistency in the reporting of rates and charges, and allow more meaningful comparisons.

Findings

- Rates paid in 2012–13 varied from $987 to $1 766, on average per property, across audited councils.
- Councils attribute rate increases to factors such as maintaining existing services, ‘cost shifting’, the landfill levy, and infrastructure maintenance and renewal.
- It is difficult to readily compare rates and charges for different councils.

Recommendations

The Department of Planning and Community Development should:

- clarify and standardise key data reporting requirements
- in consultation with the Municipal Association of Victoria, review the adequacy of the Local Government Cost Index and encourage the use of an agreed benchmark by councils in the annual reporting of their rates and charges.

2.1 Introduction

Each year, councils set the amount of rates and charges revenue that their municipality will require for the coming financial year, and structure the mix of rates and charges to best distribute the property tax burden across their different ratepayer groups.

In making their decisions, they must make choices about the level and quality of services and infrastructure their municipalities need, in accordance with their council plan, strategic resource plan and budget.

The immediate outcomes of these decisions are presented in each council's proposed annual budget. Councils also make data and information about their rates and charges available in other publications, such as their annual reports and on their websites.

Sound council rating practices and decisions should result in rates and charges that are reasonable, reflective of the service needs and financial capacity of the local community, transparent, easy to comprehend, and that conform with legislative requirements.

2.2 Conclusion

Average rates and charges vary considerably across councils, but there is no clear pattern for different council types, such as inner and outer metropolitan or rural councils. Total revenue from rates and charges also varies, with inner and outer metropolitan councils increasing rates by more than regional and rural councils.

Revenue amounts are increasing at a faster rate in outer metropolitan councils. This is likely to be due to population growth and the need to invest in additional infrastructure and services. Rate revenue accounts for 56 per cent of total council revenue for the 12 councils audited. Inner metropolitan councils have the highest dependence on rates and charges, while rural councils generally have a lower dependence on them and receive a higher proportion of government grants.

The reporting of rates and charges data by councils needs to be improved and, in many cases, standardised across municipalities so that ratepayers and the general community can readily interpret the information.

Councils are generally dissatisfied with the existing indices used as benchmarks to compare council rate increases. The Municipal Association of Victoria (MAV) acknowledges there are some limitations in its Local Government Cost Index (LGCI), including its inability to adequately reflect cost variations such as increased or improved service costs, new levies from the state government, or new responsibilities arising from legislative or regulatory changes. There is a need to review and revise existing indices so that there is a valid, timely and accepted measure or benchmark for the local government sector. Data from different councils is not readily comparable. The use of standardised data would provide greater consistency and allow different councils rates and charges to be more meaningfully compared.

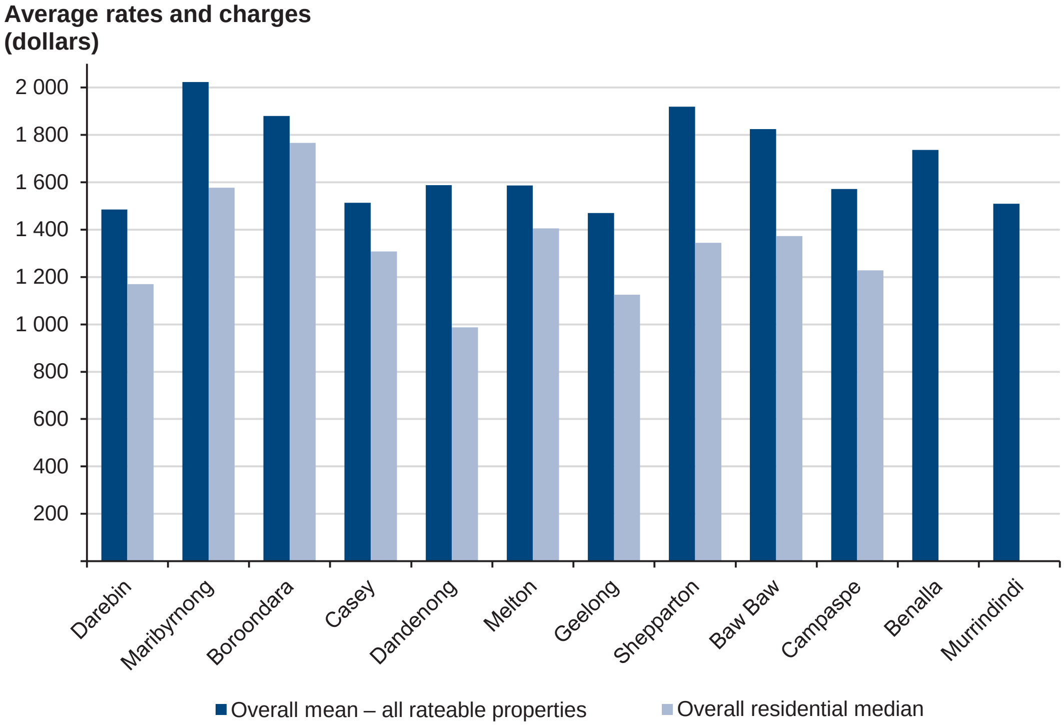
2.3 Rating outcomes

2.3.1 Average rates and charges

Figure 2A shows the average rates paid by ratepayers in different councils in 2012–13. The residential median rates paid in 2012–13 varied from $987 in Dandenong to $1 766 in Boroondara per property assessment.

The councils with mean rates exceeding $1 800 were Maribyrnong, Shepparton, Boroondara and Baw Baw. The councils with mean rates below $1 500 were Darebin and Geelong. Mean rates shown in Figure 2A are higher than median rates because of the impact of certain ratepayer groups who pay higher rates, such as commerce and industry, and other variations in the distribution of property values.

Figure 2A
Average rates and charges per assessment, 2012–13



Note: 1. The overall mean was calculated by dividing the total rates and charges revenue figure (not including supplementary figures) by the total number of assessments. The overall mean is likely to be higher than the amount most ratepayers (particularly most residential ratepayers) would pay, due to higher-paying categories of ratepayers such as commerce and industry. This is particularly significant for councils like Dandenong that have a large amount of commerce and industry and use differential rates to impose a higher rating burden on these property groups.

Note: 2. The residential median figure removes the impact of high-paying industry on the average figure and therefore provides a better approximation of what residential ratepayers might pay. No median data is available for Benalla and Murrindindi.

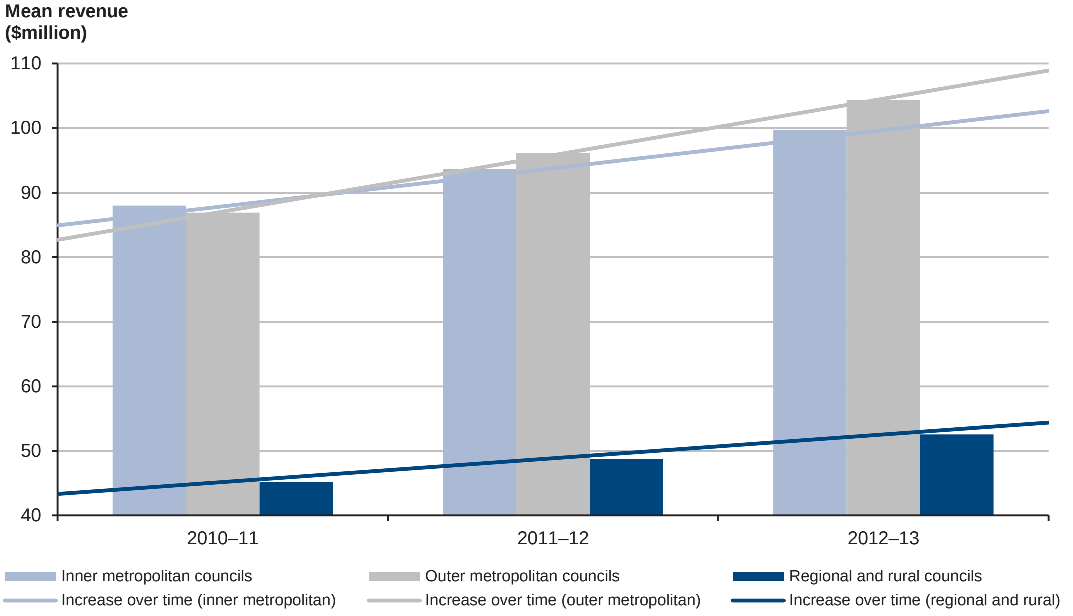
Source: Victorian Auditor-General's Office based on data from councils and the Municipal Association of Victoria.

2.3.2 Rate revenue

The rates and charges paid by ratepayers are dependent on a number of factors, including the quantum of total revenue that a council determines is required to deliver the services and manage infrastructure its municipality needs, and the available sources of that revenue, including from rates and charges.

Figure 2B provides the average rate revenue increases for different types of the audited councils over the past three financial years.

Figure 2B
Rates and charges revenue per council type, 2010–11 to 2012–13



Source: Victorian Auditor-General's Office based on data from councils.

Figure 2B shows that the six regional and rural councils raise much lower amounts of rates and charges revenue annually ($45 million to $53 million group average), than their three more populous inner metropolitan counterparts ($88 million to $100 million group average). Revenue for both groups has risen in a similar way over the past three years.

The three outer metropolitan councils raise a similar amount ($87 million to $104 million group average) of rates and charges revenue to the inner metropolitan councils, but their amounts have increased more rapidly. In outer metropolitan councils, group average rates increased by 8.5 per cent in 2012–13 and 10.7 per cent in 2011–12, compared to increases of 6.5 and 6.4 per cent for the inner metropolitan councils, and 7.6 and 8.0 per cent for the regional and rural councils over the same periods. This is attributed to population growth and the need to invest in additional infrastructure and services to cater for faster growing communities in the outer metropolitan councils.

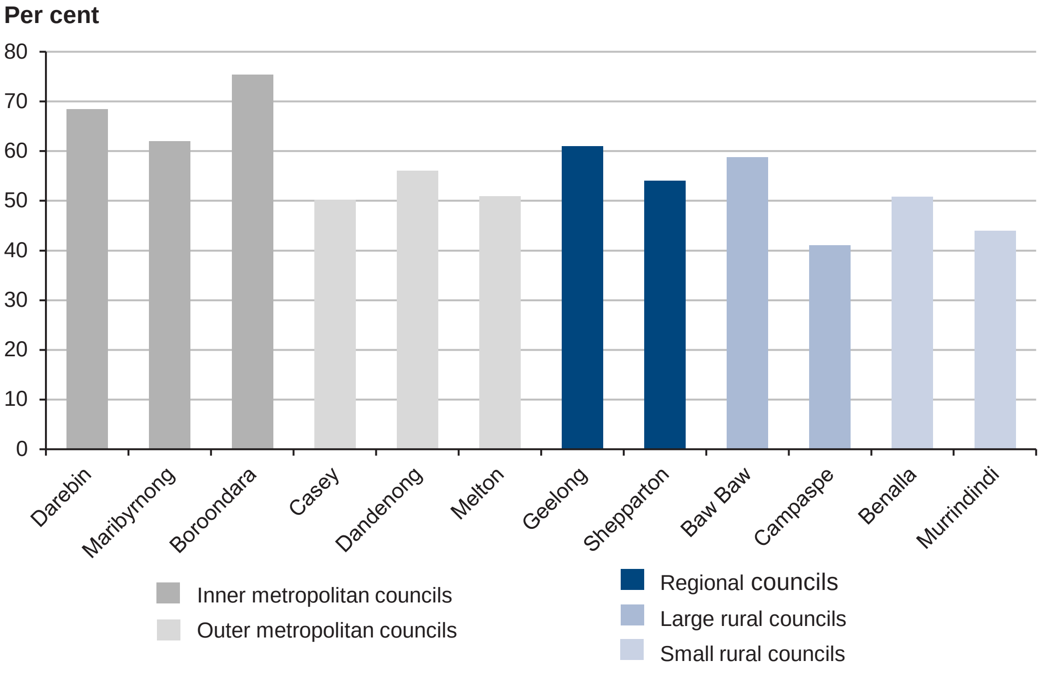
The amount of revenue required by councils varies considerably according to the demographic and economic profile of the municipality, the needs of its population, the financial circumstances of the council, and other variables. Some councils have greater access to external funding sources such as government grants than others, and some have a faster growing ratepayer base than others.

These factors should be considered when comparing councils on the total amounts they raise in rates and charges, and also on the average rates paid by ratepayers.

2.3.3 Rate revenue dependence

Figure 2C shows the level of council dependence on rate revenue across the audited councils. For 2012–13, councils will obtain 40–80 per cent of their total revenue from rates and charges. The average (mean) rates and charges contribution to total revenue for the 12 councils for 2012–13 is 56 per cent.

Figure 2C
Rates and charges revenue as a percentage of budgeted council income by council type, 2012–13



Source: Victorian Auditor-General's Office.

Inner metropolitan councils tend to rely most heavily on rates and charges revenue, partly because of the lower availability of grants and other external assistance for these councils. The councils with the lowest reliance on rates and charges are the rural councils of Campaspe and Murrindindi, but they rely much more on grants.

2.3.4 Drivers of rate increases

We asked councils what the key drivers of their recent rate increases have been, as they were not consistently articulated in key rating documents. The results for 2012–13 are summarised in Figure 2D.

Councils reported the top drivers for 2012–13 to be:

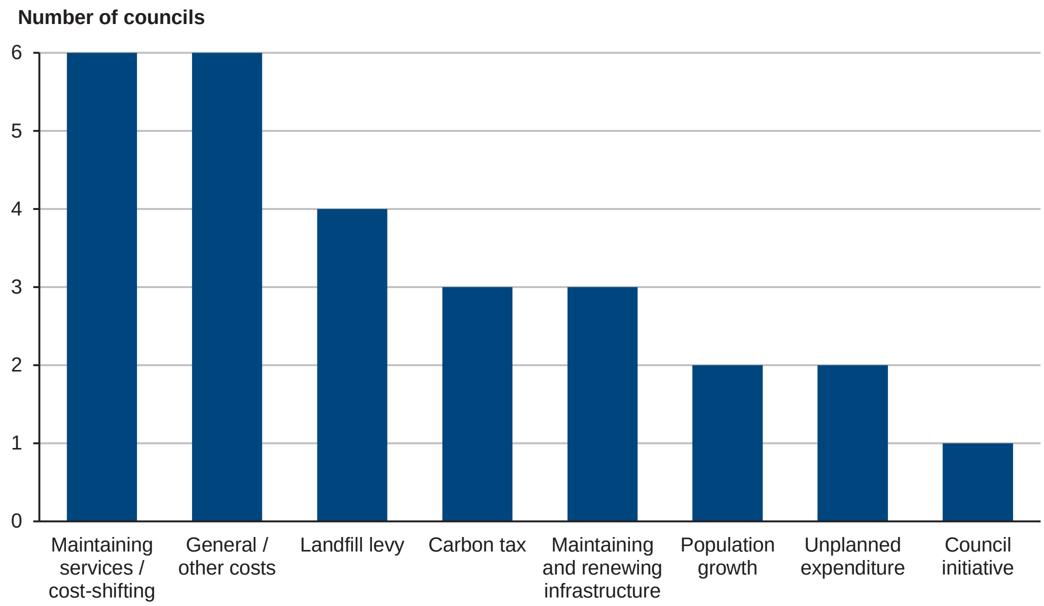
- maintaining existing services
- cost shifting by other levels of government
- the Environment Protection Authority landfill levy
- the carbon tax
- maintenance and renewal of infrastructure.

On the cost shifting issue, councils have indicated that state and federal governments often provide funding for a particular service, but the funding does not increase each year in line with the cost of providing the service. Cost shifting is a contentious and commonly raised issue within the sector, but investigation of its nature and impacts was beyond the scope of this audit.

Population growth was also a significant rate driver for the growth area councils of Casey and Melton, highlighting particular challenges for those councils.

This information should be routinely reported in council rating strategies each year to improve ratepayer understanding of key rate increase drivers and council rating decisions.

Figure 2D
Key rate drivers as reported by councils, 2012–13



Source: Victorian Auditor-General's Office based on information from councils.

2.3.5 Rate in the dollar outcomes

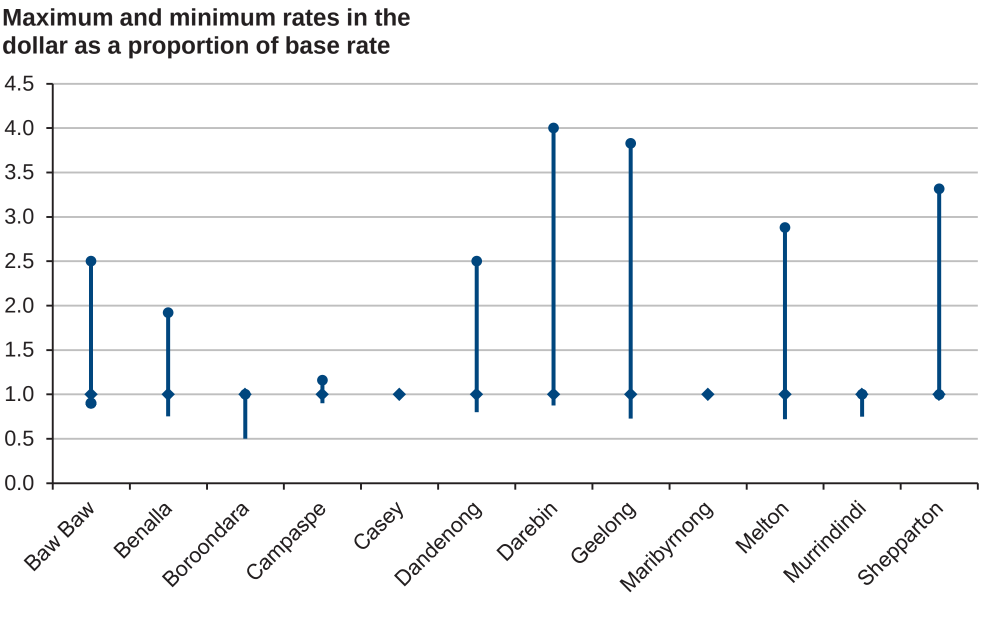
The 'rate in the dollar' is used to calculate a property's rates by multiplying it by the value of the property. The general rate in the dollar, commonly applied to residential properties, is obtained first by dividing the total rate revenue required, excluding municipal and waste management charges, by the total value of all rateable properties in the municipality. Figure 2E illustrates the range of rates in the dollar for each of the audited councils.

The rates in the dollar for different property categories are then calculated as a factor or proportion of the general rate. The general rate is the council base rate, and is represented as 1.0 in Figure 2E. In the case of a uniform rate, all properties are charged the full general rate in the dollar. In the case of differential rates, each differential category is calculated as a factor or proportion of the general rate, for example, farmers 80 per cent, business 150 per cent.

Boroondara, Casey and Maribyrnong do not have differential rates, although Boroondara has a cultural and recreational concession rate. Of the councils that do have differential rates, Campaspe and Murrindindi have the narrowest range while Darebin and Geelong have the widest. In Darebin's case, the highest rate in the dollar is for its electronic gaming machines differential, while for Geelong, it is for an industrial differential.

Figure 2E also shows that all audited councils complied with the legislative requirement that their highest differential rate not be greater than four times their lowest.

Figure 2E
Residential rate variations, 2012–13



Source: Victorian Auditor-General's Office.

2.4 Comparative cost index

A sound local government cost index can provide a comparative benchmark to show how a particular council's input costs are increasing. This in turn can help inform a ratepayer's understanding of the reasonableness of annual increases in council rates and charges.

The consumer price index (CPI) is a common index which measures changes in prices associated with general household expenditure. MAV developed LGCI which is intended to forecast the annual movement in council costs and be more tailored for use in the local government sector than CPI.

Until 2012–13, wage costs comprised 80 per cent of the total movement in LGCI, and construction comprised 20 per cent. From 2012–13, the index also includes a one-off component for the federal government's new carbon tax.

For 2012–13, LGCI is 3.9 per cent. This is the forecast increase in council costs on the presumption of no increase in service levels or quality, no population change and no other exceptional costs.

LGCI is currently the best available sector benchmark in Victoria around which a council can, in theory, explain its own cost and expenditure variations to its ratepayers, and also better explain its revenue dependence on rates and charges. MAV itself has identified various limitations in LGCI, including the sector relevance of the source data it uses and its ability to adequately reflect cost variations, such as increased or improved service costs, new levies from the state government, or new responsibilities arising from legislative or regulatory changes. While the *Victorian City Council Model Budget 2012–13* refers to LGCI in its budget influences section, it does not explicitly endorse its use.

Many councils are dissatisfied with both CPI and LGCI as benchmarks. They argue that the scale of rate increases needs to be understood in the context of large, externally imposed costs, and factors over which councils have little control, that are currently not reflected in the construction of the LGCI.

More specifically, they suggest the LGCI does not adequately reflect actual wage costs for councils, external market forces, and the actions of the Victorian and Australian governments, which combine to increase service delivery and infrastructure costs, while diminishing external funding.

An additional LGCI issue raised is the timing of its release by MAV at the end of May, which is after councils have already prepared their budgets, including any proposed changes in rates and charges increases.

A validly measured and widely accepted cost index is an important sector benchmark for assessing whether council rate increases are reasonable and efficient. A suitable and agreed sector cost index should be developed and used by all councils to promote greater transparency and comparability of increases in rates and charges.

2.4.1 Rates data—comparability issues

During the audit, we experienced difficulty in identifying directly comparable data and benchmarks for rates and charges across councils for a number of reasons:

- Councils may report their ‘average rates’ as a mean or median, and may average them over all ratepayers—including commercial and industrial properties, for instance—or just residential ratepayers. However, even when councils clarify their method, data comparability remains a problem.
- Similarly, councils report ‘average rates and charges increases’ as a percentage that may or may not include certain rating components in the calculation—for example a special infrastructure surcharge, special rates and charges, carbon tax, or rate rebates – all of which are part of overall rates and charges specified in the *Local Government Act 1989*.
- ‘Rates and charges’ totals may or may not include ‘supplementary rates’ which are additional rates received after the budget is adopted each year, for that part of the year when a property increases in value (e.g. due to improvements made), or new properties become assessable. It can be quite substantial for some councils (e.g. those in growth areas) and the methods of calculating this supplementary revenue vary.

Even statutory disclosures on rates and charges required by Regulation 8 of the *Local Government (Finance and Reporting) Regulations 2004* are prepared inconsistently across councils. This appears to be because councils interpret the data reporting requirements differently. This makes comparisons between councils difficult, and interpretation by non-experts, such as ratepayers, challenging.

Examples we found included:

- four councils did not make it clear whether supplementary rates were included in the total rates and charges revenue figure
- eleven councils did not make it clear if the figure provided was the budgeted figure, or the actual figure when providing their previous year’s figures—such as for the number of property assessments and the estimated amount to be raised by each type of charge
- ten councils did not make clear whether the ‘number of assessments’ figure provided for the budget year was for actual assessments at the start of the financial year, or the forecast assessments at the end of the same year.

The reporting of rates and charges data needs to be improved and, in many cases, standardised across municipalities so that ratepayers and the general community can readily interpret it.

Recommendations

The Department of Planning and Community Development should:

1. clarify and standardise key data reporting requirements relating to rates and charges for councils
2. in consultation with the Municipal Association of Victoria, review the adequacy of the Local Government Cost Index and encourage the use of an agreed benchmark by councils in the annual reporting of their rates and charges.

3 Victoria's rating framework

At a glance

Background

Victoria's rating framework is governed primarily by relevant sections of the *Local Government Act 1989* (the Act). Councils are also supported by non-mandatory guidance on developing a rating strategy.

Conclusion

While councils work within the common rating framework, there is a lack of clarity and detail in the Act and the guidance material, which has contributed to inconsistencies in the rating practices of councils. Consequently, there are differences in the quality and soundness of council rating decisions. The Department of Planning and Community Development cannot provide assurance that the legislation is being applied by councils as required.

Findings

- The document *Developing a Rating Strategy: A Guide for Councils* provides some useful guidance in applying the Act but does not reflect all current practices or legislative requirements.
- There is considerable variation in councils' application of rating principles and objectives, and only limited assurance that they adequately consider the principles of stability, equity, efficiency and transparency in their rating decisions.
- Councils generally comply with statutory reporting requirements, but do not consistently apply the public notice provisions for their budgets.
- Local Government Victoria does not proactively support councils in their rating activities, or monitor and report compliance with the Act.

Recommendations

The Department of Planning and Community Development should:

- consider how best to achieve the objectives of the Act, including reviewing the adequacy of the Act and existing sector guidance material
- communicate to councils Local Government Victoria's role in the provision of guidance and support to them in rating practices, and clarify Local Government Victoria's expectations of council rating practices and activities.

3.1 Introduction

Councils set their rates and charges within a common rating framework that is governed primarily by relevant sections of the *Local Government Act 1989* (the Act). There is also non-mandatory guidance about rating practices that has been developed by the former Department of Victorian Communities, the Municipal Association of Victoria (MAV) and the Institute of Chartered Accountants Australia (ICAA).

Complying with the Act and following the guidance material constitutes current, available best practice.

3.2 Conclusion

There is a lack of clarity, detail and direction within the Act and guidance material relating to rates and charges, which has contributed to inconsistencies in the quality and soundness of council rating practices.

Local Government Victoria (LGV) does not proactively provide advice and guidance to councils about how to achieve the objectives and principles in the Act relating to rates and charges, or how council performance in this area should be measured, monitored and reported. There is no systematic monitoring by LGV of council rating activities to determine whether they are applying the legislation as required.

3.3 Legislative framework

The Act sets out the primary objectives of a council in order for it to achieve the best outcomes for its local community, and requires councils to have regard to a number of facilitating objectives. In relation to the setting of rates and charges, the objectives are to ensure:

- the equitable imposition of rates and charges
- transparency and accountability in council decision-making.

The Act also states that a council must implement the principles of sound financial management. The principles that relate to council rating systems are:

- to pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rates burden
- to manage prudently the financial risks of changes in the structure of the rates and charges base.

In some cases, the Act specifies the purpose for which categories of rates and charges may be used—for example, a municipal charge of up to 20 per cent of the sum of general rates can be used to cover part of a council's administrative costs. In other cases, the Act does not specify when to use a particular rating category, such as a uniform rate. For differential rates, the Act requires councils themselves to specify the objectives of each differential. The key rating principles of equity, stability and transparency which councils must apply are not defined in the Act, and councils must determine their meaning and how they are applied in practice.

A sound rating strategy assists a council to develop an appropriate rate structure for its municipality, and to publicly account for its rating decisions. However, the development of a rating strategy is not mandatory under the Act.

As the Act does not define the key rating principles or provide clear guidance on many aspects of rating practices, it is difficult for councils to consistently meet the Act's objectives and apply the rating principles in a way that provides assurance that the Act is being complied with. In the absence of clear definitions and guidance in the Act, it is not clear how desired rating outcomes can be achieved.

There is also no requirement for councils to measure and report compliance with the objectives and principles, which makes it difficult for councils to demonstrate or assess how they are complying with the requirements of the Act.

The Act was amended in 2012 to allow the Minister for Local Government to set guidelines for the application of differential rates and to prevent councils from applying differential rates that are inconsistent with those guidelines. The government released a discussion paper and draft ministerial guidelines in January 2013 for public consultation, however, these have not been assessed as part of this audit.

3.4 Rating guidance material

3.4.1 The guide for developing a rating strategy

The guide comprises two parts: *Developing a Rating Strategy: A Guide for Councils* (Rating Strategy Guide) and *A Rating Strategy: An Example.* These were designed to provide councils with guidance on how to apply the Act in relation to rating practices. They were intended to complement each other, setting out a process for developing a rating strategy, and providing an example based on a fictional council.

The guide and example have not been updated since they were developed by the Department of Victorian Communities—the Department of Planning and Community Development's (DPCD) predecessor—and MAV in 2004, and each has deficiencies that limit their usefulness. They may have reflected practices at the time the guides were developed, however, they do not fully reflect current practices. For example, councils currently undertake a range of engagement activities around their rating strategies which are not addressed in the guidance material. In addition, the guide does not reflect recent amendments made to the Act such as significant changes to section 161, which relates to differential rates.

The guide outlines the rating system, including the elements of the rates package and what rates and charges a council may declare. This section of the guide states that a key part of a rating strategy is presenting the rationale for the choices the council has made between different elements, such as the type of rates and charges, and the discounts, rebates and waivers it adopts.

While the guide outlines the value of a rating strategy and broadly outlines the process for preparing one, it does not adequately cover all key aspects of rating, such as how to apply the principles of the Act in practice, or how to engage with ratepayers on rating decisions.

The guide discusses rating principles. While acknowledging that equity is a subjective concept and difficult to define, the guide provides much more discussion and guidance in relation to this rating principle than others. There is some discussion about efficiency—although this is no longer a requirement of the Act—but stability is not covered in the guide. Overall, there is little guidance on how to apply the principles in practice, or how the intended outcomes of the Act can be achieved.

With regard to differential rates, the guide discusses the need to take into account the extent of council services usage and capacity to pay. However, there is no discussion about identifying the need for, and objectives of, differential rates, or on demonstrating the achievement of their outcomes. The guide acknowledges there is no ‘one size fits all’ rate structure and that there are local decisions to be made, but that the arguments in each case should be clear and coherent.

In many instances, the guide outlines what councils can do, and includes examples of activities or decisions councils undertake, rather than providing guidance on what councils should do to conform to the Act and better practice.

The guide notes that rating is one of the most sensitive issues about which councils make decisions. It suggests a coherent and well-presented rating strategy can help everyone involved—councillors, council staff and ratepayers—better appreciate the issues involved and the choices to be made. However, apart from a paragraph on the opportunity for public review and consultation, there is no guidance on better practice and approaches to ratepayer engagement.

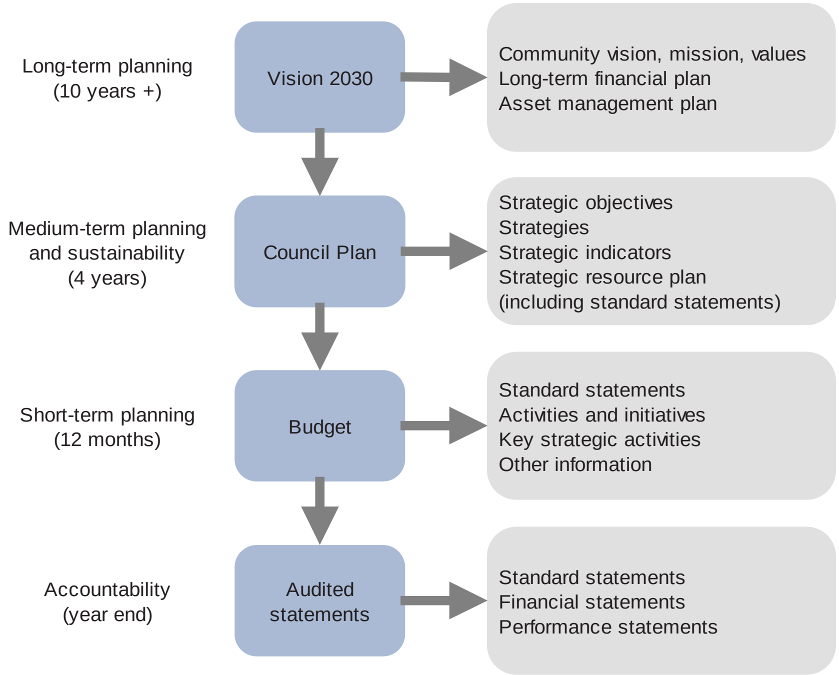
The guidance material suggests some deficiencies in the Act. The example rating strategy notes that ‘administrative costs’ may be covered by municipal charges but the Act does not define what constitutes administrative costs.

3.4.2 *Victorian City Council Model Budget 2012–13*

The model budget was developed by ICAA. It is based on a fictional council and contains an example budget which includes a rating strategy, associated guidance, and a statutory disclosure section for reporting information required by the Act and the *Local Government (Finance and Reporting) Regulations 2004*.

The model budget provides guidance for councils in complying with legislative requirements and demonstrates the link between the planning and accountability reports required by the Act. Figure 3A presents these reports within a council’s strategic planning framework. The rating strategy is one of the long-term strategies considered as part of the Strategic Resource Plan and Annual Budget.

Figure 3A
Strategic planning framework



Source: Victorian Auditor-General's Office based on information from the Institute of Chartered Accountants Australia.

The rating strategy section of the model budget is minimal, and is intended only to summarise the key elements of a council's rating strategy. Following only the model budget neither constitutes better practice, nor provides assurance that all requirements of the Act will be met.

3.4.3 Local Government Victoria's role in providing guidance

LGV does not proactively provide advice and support to councils about how to achieve the objectives or principles in the Act, or on how a council's performance in this area should be measured, monitored and reported.

Councils indicated that LGV provides good support in some areas, including its response to queries about the Act and providing explanatory rates material on its website. Councils raised a broad range of other areas with us where they are seeking guidance and support from LGV, including:

- encouraging greater consistency across councils in the way rates and charges are determined and applied
- reviewing and updating sector better practice guidance on rating
- improving rating systems and administration
- providing guidance on more effective ratepayer engagement and communication about rates and charges.

LGV has advised that various areas raised by councils, including the encouragement of rating practice efficiencies, are not part of its role. These differences indicate that in the rating practices area, clearer communication and understanding of the respective roles of councils and LGV is needed.

3.5 Application of key rating principles and objectives

Councils were aware of the key principles and objectives that should guide their rating practices and decisions and be reflected in their rating strategies. All councils, except Casey and Murrindindi, indicated they follow the ICAA *Victorian City Council Model Budget 2012–13*. Benalla and Shepparton indicated they also actively use the Rating Strategy Guide.

There is variability in how councils interpret and apply the key rating principles of equity and stability. One council, for example, defined equity and fairness in a detailed and practical way, providing 14 criteria to be considered. Another simply asserted that the use of the capital improved value method to calculate rates, along with the use of differentials, ensures the most equitable distribution of rates. Rating principles and objectives are not clearly defined in the Act or guidance material, although the latter does provide some helpful discussion. This is likely to have contributed significantly to councils' variable performance in defining their rating principles and objectives.

Councils are required by the Act to outline the objectives of some rates and charges they set, such as differential rates. Objectives for specific rating categories were commonly outlined in the statutory disclosure section of the annual budget, but they were generally poorly defined. For example, a variety of differential rate categories commonly shared one generic objective such as 'ensuring that all rateable land makes an equitable contribution to the cost of carrying out the functions of council'. This approach reduces accountability for the application of these rating categories.

We assessed how well councils defined their rating principles and outlined the objectives of their rates and charges, including specific rating categories. Better practice includes:

- clear identification and explanation of the principles underpinning the council's rating strategy and decisions in key public documents, and consistency of these with the Act
- clear explanations of how the council uses rates and charges, and what it aims to achieve through that revenue source
- clearly defined council objectives for specific rating categories chosen, such as a vacant land differential rate, a municipal charge or a waste collection charge, so that their outcomes are measurable.

Information was sourced from a range of documents, including council plans, strategic resource plans and rating strategies. The results are summarised in Figure 3B which shows the number of councils against each criterion.

Figure 3B
How councils define rating principles and objectives

Criterion	Well defined/ better practice	Adequate	Poor or not defined
Rating principles	6	2	4
Objectives of rates and charges	4	2	6
Objectives of specific rating categories	1	5	6

Source: Victorian Auditor-General's Office.

Figure 3B shows that there is considerable variation between councils in how well they define their principles and objectives. Councils do better identifying and defining their rating principles, particularly equity (50 per cent do this well, with a number of examples of better practice including Benalla and Campaspe), than defining their overall objectives for rates and charges (33 per cent do this well). Defining the objectives of specific rating categories is done poorly by half the councils, with many using only broad, generic objectives for differential rates.

Figure 3C provides two better practice examples in defining rating principles and objectives.

Figure 3C
Defining principles and objectives—examples of better practice

Dandenong

Dandenong's stand-alone rating strategy contains a better practice example of a definition of equity. It reflects the example in the Rating Strategy Guide by referring to the concepts of horizontal and vertical equity, and discusses the related capacity to pay and benefit principles. The council's *Long-Term Financial Strategy* also outlines that it has structured its rates and charges to raise a higher proportion of rate revenue from its industrial and commercial sector to achieve lower residential rates, to offset for the relatively low income levels of its residents.

Darebin

Darebin's *Strategic Resource Plan* outlines objectives for its rates and charges, such as avoiding unplanned increases, maintaining them at 5 per cent per annum and keeping its borrowing levels low—as at 30 June 2012 loan borrowings were 2.2 per cent of its rate revenue, compared with, for example, a 12.8 per cent average for metropolitan councils. It also outlines other objectives relating to meeting carbon tax costs from organisational savings and reducing dependence on non-recurrent funding, such as external capital grants.

Source: Victorian Auditor-General's Office.

3.5.1 Public notice of budget—including rates

Councils are required under section 129 of the Act to publish a public notice of their proposed budget each year in a newspaper and on their website. These public notices must include the council's proposed rate in the dollar, their municipal charge and any service charges.

For their 2012–13 budgets, all of the audited councils published a public notice in a newspaper and complied with associated requirements. Five councils—Benalla, Casey, Dandenong, Darebin and Geelong—also demonstrated compliance with the legislative requirement to publish a copy of this public notice on their websites.

Seven councils did not provide evidence of publishing their public notice on their website. However, two of these—Boroondara and Campaspe—advised that while they fully complied, they were unable to retrieve information which had previously been published on their websites.

3.5.2 Statutory reporting requirements

The Act and the *Local Government (Finance and Reporting) Regulations 2004* require certain information relating to rates and charges to be disclosed within each council's annual budget by 31 August each year.

Under sections 127(3) and 158(1) councils must declare their rates and charges, providing information about the categories of rates and charges to be applied, the amount to be raised, and whether the 'general rates' category will be raised using a uniform rate, differential rates or other specified categories of rates.

Regulation 8(c) of the *Local Government (Finance and Reporting) Regulations 2004* further sets out a list of rates and charges information that councils must include in their proposed budget each year. These statutory disclosures are typically included by councils in an appendix to their budgets. All councils provided this information, but did not provide it in the same way.

While ten of the audited councils fully complied with the relevant legislation by publishing their statutory disclosures, we identified the following instances of noncompliance within those disclosures:

- Dandenong's budget did not include information on its five differential rates, as required by section 127 3(b) of the Act. This includes specifying the objectives of the differential rate and several other criteria, including the land use, geographic location, planning scheme zoning and the types of buildings.
- While Murrindindi included some of this information related to differentials in its budget, it covered one of its four differential rates only, and the information was incomplete. None of the required information was included on the remaining three differentials.

Councils demonstrated varying interpretations of the requirement to disclose 'any significant changes that may affect the estimated amounts to be raised' (Regulation 8(c)(xiii)). Nine councils followed the model budget wording, which states that 'There are no known significant changes which may affect the estimated amounts to be raised by rates and charges' then provides a list of other (implied insignificant) factors, such as supplementary valuations, that might affect estimates.

One council disclosed supplementary rates as a significant change. Of the two councils that had no significant changes to disclose, but did not follow the model budget wording, one stated that there were no significant changes to disclose, while the other made no statement regarding Regulation 8(c)(xiii).

The ICAA model budget was used by 10 councils to guide their rating practices. It includes a compliance checklist that has 20 items, of which 14 relate to rates and charges which must be included in a council's annual budget. While ICAA recommends that this checklist be used at the conclusion of budget preparation to check full compliance with legislative requirements, this alone does not provide adequate assurance of compliance with all legislative requirements for rate setting. Nor does the ICAA purport that the model budget does this.

While all councils referred to methods and processes used to assist in complying with legislation, only three councils (Baw Baw, Boroondara and Maribyrnong) advised that they perform a full compliance self-assessment as part of their annual budget preparation. Satisfactory evidence of these self-assessments was only provided by Boroondara.

3.6 Monitoring of rating compliance

LGV does not routinely monitor and report on councils' rating practices to assess their performance in applying the Act. The Local Government Investigations and Compliance Inspectorate within DPCD conducts compliance audits at all Victorian councils, including spot audits, and also investigates complaints of alleged breaches of the Act. While these compliance audits cover some aspects of rating practices, they are not intended to be a systematic assessment of councils' overall compliance with the Act on rating practices.

Since 2002, councils have reported against 11 key performance indicators in their annual reports. Two of these relate to average rates and charges. LGV publishes this data on its website and uses it to compile a report that is published annually *(Local Government in Victoria Report)*. This provides a broad analysis of increases in rates in the sector. While somewhat useful, it provides limited comparisons of council characteristics or performance on rating, and provides no indication of whether councils are complying with the Act. Apart from the statutory information that councils include in their budget each year, there is no requirement for them to report on compliance with the objectives of the Act.

The absence of systematic monitoring of, and reporting on, councils' overall rating practices means that neither DPCD, nor councils themselves, are able to provide assurance that councils are complying with the Act.

Recommendations

The Department of Planning and Community Development should:

3. consider how to best achieve the objectives of the *Local Government Act 1989* with regard to council rates and charges, including reviewing the adequacy of the *Local Government Act 1989* and existing sector guidance material
4. establish a framework to monitor and report on council compliance with the *Local Government Act 1989* with regard to rates and charges, which is supported by relevant and appropriate performance measures and targets, and public reporting against key performance measures
5. communicate to councils Local Government Victoria's role in the provision of guidance and support to them in rating practices, and clarify Local Government Victoria's expectations of council rating practices and activities.

4 Applying the rating framework

At a glance

Background

A sound rating framework, comprising clear legislative requirements and guidance, and monitoring and reporting of council performance, should provide the basis for consistency and transparency in council rating decisions. Council practices in determining and allocating rates and charges should, in turn, reflect this framework.

Conclusion

There is limited assurance that all councils:

- systematically and rigorously consider the information and evidence they need to adequately understand the impact of their rating proposals on their communities
- adequately develop and review their rating strategies.

Findings

- Ten of the 12 audited councils had current rating strategies, but these varied considerably in their completeness, content and quality.
- Links between longer-term council and financial plans, and rating decisions, weren’t clearly articulated.
- Councils did not explicitly and consistently articulate the key considerations and drivers influencing their rating structures and the level of rates and charges set. There were limitations with the rate modelling they undertook, and its reporting.

Recommendations

- The Department of Planning and Community Development should consider making rating strategies mandatory.
- Councils should periodically review their rating strategies.

4.1 Introduction

The *Local Government Act 1989* (the Act) and the rating guidance material discussed in Part 3 provide the framework for council rating decisions. When applying the framework, councils draw on a range of information and advice to determine their rates, including their medium- and longer-term council and financial plans, the annual budget process, and various kinds of analysis and rate modelling.

Council rating strategies should reflect the advice they receive from their staff, and provide reasons for the rating structure and amount of rates and charges each council determines. Sound and transparent analysis and decision-making in setting rates is important to ensure that rating decisions are a rational and reasonable response to balancing a municipality's identified needs, and its ratepayers' capacity to pay. Rating strategies are also important for ensuring accountability to ratepayers.

4.2 Conclusion

Rating decisions are made by councils in the context of their medium- and longer-term council and financial plans. However, the links between these plans, the annual rate structure and amount of rates, and future rate revenue requirements, are not clearly articulated in key rating documents.

In addition, while 10 of the 12 audited councils have current rating strategies, there is considerable variability in their completeness, content and quality.

Consequently, there is limited assurance that all councils:

- systematically and rigorously consider the information and evidence needed to adequately understand the impact of their rating proposals on their communities
- adequately develop and review their rating strategies.

4.3 Using the framework to set rates

While the available rating legislation and sector guidance provide the broad parameters for rate setting, a council's actual processes for determining its rate revenue requirement and rate structure are crucial to the rate outcomes for its municipality.

4.3.1 Developing a rating strategy

It is better practice to have a rating strategy that systematically considers the relevant factors of importance to inform rating decisions. It should be comprehensive and contain appropriate information to properly support rating decisions. It should be supported by briefing materials provided to councillors to assist decision-making, which include a rationale for the proposed rate structure, supportive rate modelling, and benchmarking with other comparable councils.

Nine of the 12 audited councils—Baw Baw, Benalla, Boroondara, Campaspe, Dandenong, Darebin, Geelong, Maribyrnong and Shepparton—had developed a rating strategy for the 2012–13 financial year. Each of these councils published its rating strategy as a section within its budget, while Campaspe, Dandenong and Geelong also separately published comprehensive, stand-alone strategies.

Casey developed a stand-alone strategy in 2008, which is scheduled to be reviewed after four years. This was not referenced in Casey's 2012–13 budget. Melton provided evidence of discussion of rating practices, but did not provide a formal published rating strategy that set out its decisions on rating issues.

The Act does not require a rating strategy to be developed. In the absence of this mandatory requirement, there is limited assurance that councils can readily demonstrate the soundness and reasonableness of their rating decisions.

The councils that did not have a current rating strategy—Melton and Murrindindi—provided the required statutory disclosures on rates and charges in an appendix to their council budget. The statutory disclosures alone, however, do not provide a sufficient or comprehensive overview of the basis for a council's rating decisions.

All councils provided various briefing materials for councillors to inform rating decisions. Five of the seven councils that had differential rates and current rating strategies, modelled the impact on each differential category, while three of these also included modelling by suburb or locality.

Adequacy of current rating strategies

The existing guidance, *Developing a Rating Strategy: A Guide for Councils* (Rating Strategy Guide) and *Victorian City Council Model Budget 2012–13,* outline the minimum elements that a better practice rating strategy should contain. Figure 4A, lists these elements and outlines the number of councils that adhered to better practice by providing information relevant to the particular best practice requirement in their rating strategies.

Figure 4A
Assessment of current rating strategies of 10 councils

Better practice content	Covered	Some required content	Not included	Not applicable
Description of rating structure (including the valuation method, any differentials and any charges)	8	2	–	–
Strategic development (links rating strategy to other council plans and strategies, as well as benchmarking with other councils)	1	6	3	–
Description of rating options available to council under the legislation and the reasons for council's choices	4	2	4	–
Definition of the principles of equity and efficiency	2	5	3	–
Summary of current year rate increase, including the amount, driving factors and a comparison with historical rate increases	5	4	1	–
Disclosure of the percentage of rate revenue provided by the municipal charge[(a)] and the particular administrative costs to be covered by the municipal charge	–	3[(b)]	–	7
Research to identify influences on rates, such as economic trends, demographic patterns and valuation shifts	6	–	4	–
Consideration of outcomes against principles and objectives	3	2	5	–
Discussion of balance between rates and charges	3	1	6	–
Acknowledgement of the adverse effect that concessions to one group of ratepayers can have on other ratepayers.	3	1	5	1
Reasoning in relation to differentials is supported by research/evidence	–	–	8	2
Description of the impact of revaluation, including the impact on the rate in the dollar, the impact on suburbs/localities and whether differentials should be adjusted in response	2	4	4	–
Acknowledgement of the impact on various categories of ratepayer the distribution of the rate burden	4	2	4	–

(a) This is not included in the *Victorian City Council Model Budget 2012–13* or the Rating Strategy Guide. Rather, it reflects the statutory limit on percentage rate revenue from municipal charges. A good rating strategy would demonstrate the council's compliance with this requirement.

(b) The three councils that provided some information disclosed the percentage, but not the particular administrative costs to be covered. One council stated a policy objection to disclosing the costs.

Source: Victorian Auditor-General's Office.

Figure 4A, highlights the wide variability in the content and quality of rating strategies across those councils that have a current strategy. Six councils included research that identified important influences that may impact on rates. None of the strategies set out any research or evidence used to support the introduction and use of differential rates.

Some of the factors that councils did not address in their rating strategies were included in other documents, such as the budget or council briefing materials. Including this information in their strategies would make them more accessible to ratepayers.

Our examination of council rating documents found:

- the content, depth and transparency of the current rating sections within the annual budget varied considerably across councils
- these rating sections did not address all the elements suggested in the Rating Strategy Guide for reviewing rating structures and decisions, such as research on economic and demographic trends affecting the municipality.

Figure 4B
Rating strategies, better practice examples

The Dandenong and Geelong stand-alone rating strategies provided some better practice examples, including the following key elements:

- the purpose of the rating strategy
- the legislative framework, including the objectives of the Act and the rating structure options available to the council under the Act
- definitions of some rating principles, including equity, ratepayer capacity to pay and the benefit principle (although only Geelong's contained the efficiency principle)
- the council's choices of rating structure options and the rationale underpinning these, including an analysis of the advantages and disadvantages of each option, and the impacts on different ratepayer groups.

4.3.2 Key rate setting considerations

In accordance with current best practice in developing rating strategies, councils should:

- clearly articulate the link between its rating strategy and rating decisions, and its council plan, longer-term financial strategy, strategic resource plan and annual budget
- actively identify and articulate the critical internal and external environmental factors that will impact on rate revenue requirements
- regularly review the changing nature of its rating base, the elements of its rating structure and the amount of rates and charges the municipality requires
- demonstrate an understanding of the characteristics of its ratepayer categories and objectively assess the likely impacts of its rating proposals and decisions on them, including their capacity to pay.

Figure 4C summarises our assessment of performance against the key considerations in making rating decisions. It shows that there is considerable variation across councils. Only one-third of councils performed well in terms of demonstrating an understanding of how rates contribute to their Council Plans and Strategic Resource Plans, in identifying key drivers that will impact on their rate revenue requirements, and in regularly reviewing their rating structures and decisions.

Figure 4C
Council performance in key aspects of rating decisions

Key aspect of rating decision	Well	Adequate	Poor
Understand how rates contribute to resourcing their medium-term plans	4	6	2
Identify expected impacts of economic and other changes on revenue requirements	4	6	2
Regularly review the adequacy of their rating structures and decisions	4	6	2
Develop rate structure proposals and assess their impact on ratepayers and council objectives	2	6	4

Source: Victorian Auditor-General's Office.

Our review of key documents also showed that the links between council plans, the annual rate structure and amount of rates, and future rate revenue dependence, were not clearly articulated. Figure 4C shows that while half of the councils performed adequately across all criteria, a third of councils performed poorly in assessing the impacts of their rate structure proposals on ratepayers before proceeding to adopt the proposals.

While the pattern in the table might suggest that some councils performed better overall on all key rating decision aspects than others, this is not the case because there was significant variance in performance, both between and within councils, on different aspects.

Resourcing medium-term plans

Councils each followed a similar sequential process to determine their rate revenue needs 5–10 years ahead, and in more detail annually, as part of the annual budget process. This broadly involved determining:

- what services and infrastructure their municipality would need and the cost of providing this over the medium to longer term
- any potential expenditure savings
- all external sources of revenue, plus council fees and charges
- the remaining revenue they would need to raise directly from rates and charges.

All councils had factored a dependence on rate revenue into their longer-term financial plans. The level of dependence varied across councils. However, there was limited evidence in key rating documents that councils had made an effort to contain future rate increases.

Greater transparency and disclosure would be more consistent with the sector guidance principles. It would also help ratepayers to understand why, for instance, one council budgets for a 13.5 per cent rate revenue increase each year (Melton), while another budgets for 7 per cent (Murrindindi). Melton's higher figure is partially due to the fact that, as a growth council, its supplementary rates from new properties increase substantially each year compared with those of Murrindindi.

When councils indicated 'how your rates are spent', they usually provided a chart or table showing how total council revenue (not rate revenue) was apportioned across different kinds of expenditure. This provides some accountability, but provides limited information for ratepayers to scrutinise and understand the reasons for any increases in rates.

Identifying expected economic and other changes on revenue requirements

Councils did not explicitly and consistently articulate, in their budgets or rating strategies, the key considerations and drivers influencing their rating structures and the level of rates and charges they set. Making these more explicit would provide better information to ratepayers and greater assurance about the basis for their rating decisions. There are a range of factors that influence council rate setting, including:

- indices such as the consumer price index, the Local Government Cost Index and other wages and building construction indices used to estimate annual cost increases for the provision of council services and infrastructure
- externally imposed financial liabilities such as the Local Authorities Superannuation Fund Defined Benefit Plan shortfall, the Environment Protection Authority landfill levy, carbon tax, and reduced Commonwealth financial assistance grants
- the capacity of their ratepayers to absorb proposed increases in rates and charges (as a constraint on higher rate revenues)
- other drivers that vary from council to council and year to year, such as a policy decision to introduce a new gaming differential (Darebin) or a need to deal with a major landfill issue (Baw Baw and Geelong).

If preparing a more comprehensive review of their existing rating strategy, councils were more likely to undertake detailed analysis of their rate revenue drivers.

There was limited evidence of ratepayer capacity to pay analysis for different socio-economic groups—an important equity consideration outlined in the Rating Strategy Guide. However, councils did analyse the broader financial impacts of revaluations on different ratepayer categories through rate modelling on a biennial basis and, to a lesser degree, annually.

Reviewing rating structures and decisions

Audited councils revisit their rating structures and settings annually in developing their budgets. However, they do not all produce a current rating strategy.

Seven of the nine councils that had a 2012–13 rating strategy undertook a rating strategy review between 2006 and 2012, with one further council (Geelong) opting to progressively review and update its stand-alone rating strategy document each year.

We found the reasons for, and frequency and depth of, more comprehensive reviews varied widely—or example, from reviewing the council's property valuation method, to a review of an entire differential rating structure.

Some variation is to be expected because of the different circumstances of councils. However, the variation we found means there is likely to be substantially different levels of disclosure by councils of their rating analysis and decisions for different municipalities.

The Rating Strategy Guide does not outline when a rating strategy should be reviewed. Councils should comprehensively review their rating strategies periodically. Some options for doing this include every four years to coincide with the induction of new councils, or every two years as part of the property revaluation process.

The findings and recommendations from rating structure reviews should inform a council's current rating strategy and decisions. We found that the rationale for current rate decisions was often not clearly linked to review findings.

Developing rate proposals and assessing their impact

Eleven of 12 councils undertook rate modelling to assess the likely financial impacts of their rating proposals. They used it routinely to consider how different rating structures would achieve their revenue targets and to distribute the rating burden across their municipalities.

Councils used modelling to identify large shifts in the rate burden for key rate-paying groups or geographic areas. But the modelling was unable to identify likely community impacts in the broader sense, such as the specific impacts on different socio-economic groups within rating categories. Rate modelling results were not reported to the community, which limited its ability to scrutinise this modelling and council decisions.

Each council prepared different combinations of rates and charges, different 'rates in the dollar', and different percentage rate increases when doing its rate modelling. Some councils undertook considerable analysis of the property tax impacts on different ratepayer groups, or different property locations in their municipality, others minimal. Councils used a variety of methods and forms of modelling software to do this work.

Recommendations

6. The Department of Planning and Community Development should consider making rating strategies mandatory and providing updated guidance regarding their content, frequency of review, and how ratepayers should be engaged.
7. Councils should periodically conduct a comprehensive review of their rating strategies.

5 Ratepayer engagement and communications

At a glance

Background

Councils must be transparent and accountable for their rating decisions consistent with the requirements of the *Local Government Act 1989* (the Act). Councils are required to consider and respond to ratepayer submissions and explain the basis for their decisions.

Conclusion

Councils primarily rely on the annual budget development process to engage ratepayers about rating decisions. Councils respond to rate-related ratepayer submissions, but in general do not properly explain the basis for their decisions. A range of communication and engagement activities is undertaken, but there are opportunities for improvement.

Findings

- Engagement and communication on rating matters varies significantly in depth and quality, and there are opportunities to improve in this area.
- Councils do not provide sufficient and consistent information about rating decisions.
- Councils do not all fully comply with the requirements of the Act when responding to submissions on rate proposals in the budget.
- Examples of good practice were identified, which could be more widely adopted.

Recommendations

Councils should:

- comply with the Act when responding to submissions on rate proposals in the budget
- develop and implement comprehensive ratepayer communication and engagement strategies.

5.1 Introduction

The *Local Government Act 1989* (the Act) states that councils must ensure transparency and accountability in their decision-making. It also sets out mandatory requirements such as the need for councils to provide notice of their budget, and to respond to submissions from ratepayers.

This means that councils should engage with ratepayers effectively at critical stages of the rate-setting process, explain the basis of their rating decisions simply, clearly and in a timely manner, and properly respond to ratepayer concerns or submissions.

5.2 Conclusion

Councils primarily rely on the annual budget development process to engage ratepayers about rating proposals. While audited councils did respond to rate-related submissions from ratepayers, and their responses outlined the outcome of their deliberations, they generally did not adequately explain the basis for their rating decisions on the matters queried.

Councils used other methods to communicate with ratepayers such as holding budget information sessions and providing website information. However, the extent and quality of these activities varied.

Engagement and communications could be improved by providing better information on how and why rating decisions are made, reporting on the outcomes affecting ratepayers, and by better considering and acquitting ratepayer concerns and objections. Councils should also explore more effective methods of engagement, use their rating strategies as a communication tool, and consider making greater use of tools such as social media.

5.3 Engagement and communications activities

5.3.1 Legislative requirements and better practice

The Act requires councils to provide public notice indicating where its proposed or revised budget can be inspected, for at least 28 days, and to allow submissions to council on any proposal in the budget. This is the main mechanism for ratepayers to comment on, or object to, a council's rating proposals.

Developing a Rating Strategy: A Guide for Councils includes little discussion on ratepayer engagement and communications. However, it suggests that if a council is introducing a new rating strategy, or significant changes to an existing one, it should consider public consultation prior to the formal budget process. The guidance has not kept pace with current practice as many councils already undertake a range of engagement activities around rates and charges, which are discussed in Section 5.3.2.

The *Victorian City Council Model Budget 2012–13* suggests that it is inadequate to simply make the budget—which must contain core rates and charges information—available at a council's premises or on its web page. It recommends that councils undertake an engagement process, such as public information sessions, focus groups, or use other engagement techniques to assist the community to understand the implications of the proposed budget, and to better inform decisions on its contents.

5.3.2 Communication processes

Community consultation and rating issues

All of the audited councils advised that they had a community consultation or engagement policy. However, Baw Baw and Melton were unable to provide a copy of their policies. None of the policies obtained explained the council's approach to community consultation regarding its budget or rating strategy. While this is not in conflict with the Act, provision of information on this key area would better inform ratepayers of council communication processes regarding rate setting.

Of the seven councils that had conducted or commenced a more comprehensive rating strategy review (Benalla, Boroondara, Campaspe, Dandenong, Darebin, Geelong and Shepparton), four (Benalla, Campaspe, Geelong and Shepparton) provided VAGO with material that included evidence of community consultation.

Budget information sessions

In 2012, eight of the 12 councils held budget information sessions, as shown in Figure 5A. Benalla and Casey advised they ceased conducting information sessions due to low attendance in previous years. A number of councils also suggested that conducting these sessions was difficult given the restrictive timing of the budget process.

Six of the sessions held included a visual presentation, and all of these included adequate information on how to make a submission to council. Figure 5A illustrates the various approaches used by councils to present and explain budget and rates information.

Figure 5A
Details of 2012 council budget information sessions

Audited councils	Held budget information session	Included visual presentation with content about rates	Visual presentation included information on making budget submissions
Baw Baw	✓	✓	✓
Campaspe	✓	✓	✓
Darebin	✓	✓	✓
Geelong	✓		
Maribyrnong	✓		
Melton	✓	✓	✓
Murrindindi	✓	✓	✓
Shepparton	✓	✓	✓

Source: Victorian Auditor-General's Office based on information from councils.

Communicating significant rate increases

Some ratepayers experience rate increases disproportionate to other ratepayers primarily as a result of property revaluations. Geelong Council, for instance, advised that if the annual increase for a ratepayer is 50 per cent or more, this is considered 'rate shock', and all ratepayers affected are notified by letter and invited to contact the council regarding eligibility for a 'one-off' rates assistance waiver.

We examined how councils advise ratepayers of proposed rate changes in cases where they are likely to be significantly affected:

- During the 2012–13 budget process, three councils (Dandenong, Darebin and Melton) sent letters to ratepayers who would be significantly affected by a proposed change to advise them of the reasons and impacts, while Baw Baw sent out letters after the introduction of the proposed rate change.
- Each letter clearly described the nature of the proposed decision and its expected impact, except in the case of Baw Baw, which did not provide information on the impacts. However, all councils should have provided more detail on the reasons for the increases.

Use of websites and rate brochures

All councils had rates information on their websites, but the quality and level of detail varied widely in likely usefulness to ratepayers. Examples of items that councils omitted from their websites were the rate in the dollar, the municipal charge, the amount of waste charges, and ratepayer hardship information. Examples of best practice were the Dandenong and Shepparton websites, which clearly communicated all of the essential information, and the Melton site, which featured a tool that enables ratepayers to calculate their rates.

All councils enclosed a brochure (or equivalent) with rates notices. Dandenong and Shepparton had the most comprehensive. Eleven of 12 audited councils omitted important details about their rating structure, such as the rate in the dollar, or whether they had municipal or waste charges (Darebin is the exception). However, all councils, except Darebin, included hardship information.

Effectiveness of rating engagement and communications

None of the audited councils had adopted a systematic approach to assessing the effectiveness of their rating engagement and communication activities, or could demonstrate how well they worked.

Three councils (Maribyrnong, Murrindindi and Shepparton) suggested measures that they believed indicate community satisfaction on rates—the timely payment of rates and low number of customer service complaints. However, these do not relate directly to satisfaction with council communications or rating outcomes.

The more active use of council rating strategies as a communication tool is likely to improve ratepayer understanding of rating decisions.

In addition to undertaking budget information sessions, councils should also explore other possible methods of engagement, including more use of social media where appropriate, and learning from the approaches used by other councils. This is important given the low attendance by ratepayers at council budget information sessions. Some councils, including Dandenong, Shepparton and Murrindindi, are already using social media for this purpose. They have not, however, assessed the effectiveness of this method of communication.

Figure 5B
Better practice examples of ratepayer consultation

Benalla and Campaspe have each undertaken a rating strategy review that involved strong community consultation, and demonstrated council consideration of the feedback obtained in the consultation process. These reviews were thorough and of high quality. Benalla's Finance and Operations Committee report on its consultation activities shows how the council worked through the suggestions from six community workshops, providing reasons where a suggestion was either not accepted or given qualified support.

Source: Victorian Auditor-General's Office.

5.4 Responding to ratepayer submissions

Councils need to properly consider questions, complaints and other feedback they receive from ratepayers. The budget submission process set out in sections 129 and 223 of the Act provides the main opportunity for ratepayers to comment on, or object to, a council's rating proposals. Councils are required to consider or hear submissions, and provide reasons for the council's decision to the submission writer.

Number of submissions

In 2011–12, Baw Baw and Melton received the greatest number of submissions about rates, with 60 and 127 individual submissions respectively. Baw Baw received two additional submissions in the form of a petition signed by many ratepayers. Both councils had proposed a major change to their rate structures, which would increase rates for many ratepayers.

Melton proposed a major change to its rate structure in 2012–13 and received 152 rate-related submissions, while Baw Baw did not propose major changes that year and received five.

The remaining councils provided VAGO between zero and seven submissions for 2011–12 and 2012–13. Four councils (Casey, Campaspe, Maribyrnong and Murrindindi) advised they had not received any submissions directly relating to rates in the past two financial years.

These variations suggest most submissions are received in response to a significant rate change.

Responses to submissions

We assessed recent rate-related submissions from the past two financial years and the responses of eight councils (Baw Baw, Benalla, Boroondara, Dandenong, Darebin, Geelong, Melton and Shepparton).

In their responses, six councils clearly stated the outcome of their consideration of each submission, but only Geelong clearly and thoroughly stated the reasons. Dandenong included both contact and hardship information in its response to assist ratepayers in obtaining further assistance, while the remaining councils provided only one of these details.

Recommendations

Councils should:

8. comply with the requirements of the *Local Government Act 1989* relating to responding to submissions on the rate proposals in their budgets
9. develop and implement comprehensive ratepayer communication and engagement strategies that include:
    - information and reporting on how rating decisions are made, their implications for ratepayers, and the expected outcomes
    - the use of a range of communication tools appropriate to the local community
    - details of how the effectiveness of their ratepayer engagement and communication activities will be assessed and reported.

Appendix A.

Audit Act 1994 section 16—submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Planning and Community Development and to the following 12 councils, with a request for submissions or comments:

- Baw Baw Shire Council
- Benalla Rural City Council
- City of Boroondara
- City of Casey
- City of Greater Dandenong
- City of Greater Geelong
- Darebin City Council
- Maribyrnong City Council
- Melton City Council
- Murrindindi Shire Council
- City of Greater Shepparton Council
- Shire of Campaspe.

The submissions and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

Further audit comment:

RESPONSE provided by the Secretary, Department of Planning and Community Development

Department of Planning and Community Development

1 Spring Street
Melbourne
Victoria 3000
GPO Box 2392
Melbourne Victoria 3001
Telephone: (03) 9208 3333
Facsimile: (03) 9208 3680

Ref CSEC003695
File 12/008329

Dr Peter Frost
Acting Auditor-General
Victorian Auditor-General's Office
Level 24
35 Collins Street
MELBOURNE VIC 3000

RECEIVED
12 FEB 2013
VICTORIAN AUDITOR-GENERAL'S OFFICE

Dear Dr Frost

PROPOSED AUDIT REPORT - RATING PRACTICES IN LOCAL GOVERNMENT

Thank you for your letter of 30 January 2013 providing a copy of the proposed audit report on *Rating Practices in Local Government*.

I agree with the broad thrust of your recommendations in relation to the need for greater consistency of practice by councils in engaging with their communities in developing rating strategies and the disclosure and transparency requirements that accompany this.

To this end, Local Government Victoria has recently revised and re-issued its *Performance Matters* guidance statement to stress the importance of engaging the community when setting budgets and making strategic decisions in relation to the range of revenue raising strategies available to councils. This revised guidance will be further strengthened by the Local Government Performance Reporting Framework which will permit benchmarking of rating practices. This project is underway and will be delivered over the next two years.

In addition, Local Government Victoria has recently developed draft Ministerial Guidelines for Differential Rates to be issued under s.161(2B) of the *Local Government Act 1989* (the Act). The Guidelines are subject to a consultation by a Multi Party Ministerial Committee being chaired by the Hon David Morris MP. The Guidelines seek to encourage greater consistency in the application of differential rates by local governments, given the increase in their usage in recent years, and the resultant growth in complexity.

The Department/Municipal Association of Victoria's current guidance, *Developing a Rating Strategy - a Guide for Councils,* will be updated and reissued when the Ministerial Guidelines for Differential Rates are finalised. There is however no current intention to make the production of rating strategies mandatory under the Act.

A strengthened approach to rates benchmarking will be achieved through the Government's recent announcement of a role for the Essential Services Commission in benchmarking rates and charges in the local government sector.

State Government Victoria

RESPONSE provided by the Secretary, Department of Planning and Community Development – continued

I note that the Audit did not consider the current role of the Local Government Investigations and Compliance Inspectorate in auditing compliance with the Act in any detail. It is important to note that the re-integration of the compliance function to Local Government Victoria from the Local Government Investigations and Compliance Inspectorate and the establishment of the Local Government Performance Reporting Framework will broadly support a number of the audit's recommendations.

However it is important to stress that the *Constitution Act 1975* and the *Local Government Act 1989* are clear in intention that local government is a distinct and essential tier of government and that councils be held accountable for their decisions via democratic election. The ability to freely determine revenue priorities - within the broad legislative framework provided - is a fundamental expression of an independent level of government.

As Local Government Victoria's current guidance to councils in relation to rating practice states - it is up to councils to determine how they balance the complex issues of equity, efficiency and fairness when deciding on their budgets and setting rates.

Yours sincerely

Andrew Tongue
SECRETARY

12 FEB 2013

RESPONSE provided by the Chief Executive Officer, City of Boroondara

BOROONDARA
City of Harmony

RECEIVED
12 FEB 2013
VICTORIAN AUDITOR-GENERAL'S OFFICE

13 February 2013

Dr Peter Frost
Acting Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Dr Frost

Proposed Audit Report - Rating Practices in Local Government

Thank you for the opportunity to comment on the Proposed Audit Report - Rating Practices in Local Government ("the audit report").

In general we support the recommendations made within the report to councils (recommendations 7-9 in the audit report) regarding reviewing rating strategies, complying with the Local Government Act 1989 ("the Act") requirements for responses to budget submissions, and developing and implementing comprehensive ratepayer communication and engagement activities. We would like to comment however on some aspects of rating practices described in the report.

We consider there are two distinct elements to rating practices in local government. Firstly, the decision that a council makes regarding the quantum of rates that it needs to raise as income, and secondly, the way in which a council then allocates the rates across rateable properties using the instruments available within the *Local Government Act 1989* ("the Act").

We will comment on each aspect separately.

<u>Rating levels</u>

The quantum of rates to be raised reflects decisions made by councils on the level of services and quality of infrastructure to be provided to their local communities. Councils prepare their Strategic Resource Plans and Budgets as a response to the objectives and strategies outlined in the Council Plan and other Council-adopted policies, strategies and plans.

Boroondara has a Pricing Policy in place which sets out principles and calculation methods for fees and charges that are levied for certain council services. We also seek grant and other external funding wherever possible to assist in funding services, particularly those delivered on behalf of other levels of government. We note there has been a continual decline in the level of such grant funding compared with the cost of providing the services, requiring Council to increase its share of funding or otherwise reduce service levels. Boroondara also seeks to control its expenditure levels through disciplined budget management processes and continuous improvement activities.

Boroondara considers each of the elements above, together with the relevant objectives and principles in the Act, when determining the quantum of rates it needs to raise. These decisions are made as part of our long term financial planning, with the outcomes expressed in the Strategic Resource Plan and Budget documents.

1

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Email boroondara@boroondara.vic.gov.au

2012 SUSTAINABLE CITY OF THE YEAR WINNER
KEEP AUSTRALIA BEAUTIFUL VICTORIA AWARDS

RESPONSE provided by the Chief Executive Officer, City of Boroondara – continued

We are concerned with the emphasis that the audit report makes in simplistically comparing rate level changes with the consumer price index ("CPI") and local government cost index ("LGCI"). Although a well publicised figure, CPI is not an appropriate comparison point as it reflects a basket of certain consumer goods and services, rather than the cost drivers of local government services and works. Whilst some commentary on the limitations of this comparison is included later in the report (eg. section 2.4), it is disappointing that the audit report has chosen to include the CPI comparison in the prominent audit summary and background sections without any upfront comment on its limitations.

The comparison with the LGCI also has limitations as noted in section 2.4 of the audit report. While the report recommends the adequacy of the LGCI be reviewed and councils be encouraged to use an agreed benchmark in reporting rates and charges, we believe any 'benchmark' will be inherently limited as councils make rating decisions in the context of their own circumstances and local communities, as noted above. For this reason, average rates and charges will also differ from council to council according to the mix and quality of services and infrastructure that is funded.

<u>Allocation of rates</u>

While a council 'rating strategy' may reference the quantum of rates the council generates, we believe its primary purpose should be to set out the decisions a council makes in allocating rates and charges across rateable properties.

Boroondara has in place a uniform rate in accordance with S.160 of the Act and service charges for the collection and disposal of refuse under S.162. The waste service charges recover the cost of providing those services and include different pricing for different bin sizes and types. With rates being a property-based tax, the uniform rate allows all properties in the municipality to contribute to council rates through application of a single rate to the property capital improved value. The average residential and non-residential (eg commercial) property value in Boroondara is similar, and so average residential rates in Boroondara do not vary significantly from the average rate for all rateable properties. This is unlike the circumstances in some other municipalities where business or industrial properties bear a relatively higher proportion of rates due to their higher average property values and often accentuated by the application of higher differential rates.

Boroondara considers application of a uniform rate to effectively be the 'default' rating position set out in the Act. We note that the Act requires rating objectives and other information to be specified only where differential rates are used, that is, where some properties pay proportionally more and some proportionally less due to the application of different rates to different property types or classes.

The audit report includes 'capacity to pay' as a relevant factor in considering the equity of the rating structure and notes in section 4.3.2 that councils should objectively assess the likely impacts of its rating proposals and decisions on ratepayer categories, including their capacity to pay. The report notes that rate modelling observed 'was unable to identify likely community impacts in the broader sense, such as the specific impacts on different socio-economic groups within rating categories'.

RESPONSE provided by the Chief Executive Officer, City of Boroondara – continued

We do not believe capacity pay can or should be considered at this level. The Act requires differential rating to be applied to 'types or classes of land'. To the extent that capacity to pay can be related to types or classes of land, this principle may be valid, however it is expected that the capacity to pay of different ratepayers will be very different within a property class. Reviewing impacts of rates on different socio-economic groups within rating categories as suggested seems inconsistent with the requirements of the Act concerning differential rates. Boroondara has hardship provisions in place to help address capacity to pay issues for ratepayers experiencing difficulty in paying their rates.

<u>Ratepayer communication and engagement</u>

We agree that comprehensive ratepayer communication and engagement strategies should be in place, and consider these should apply more broadly than just in relation to rates. Indeed, we consider that ongoing consultation and engagement with the community informs Council's strategies and plans, which in turn informs the Council Plan and influences the strategic resource plan and budget development. We believe that all this consultation is therefore relevant to the ultimate rate decision that a council makes.

A communications and engagement plan should be developed demonstrating community participation and deliberation and each year's plan should be evaluated based on the core values for the practice of public participation outlined by the International Association of Public Participation.

Thank you again for the opportunity to comment on the proposed audit report.

Yours sincerely

Phillip Storer
Chief Executive Officer

3

Acting Auditor-General's response to the City of Boroondara

With regard to the City of Boroondara's comments on 'capacity to pay' we note the *Local Government Act 1989* requires the equitable imposition of all rates and charges. The Rating Strategy Guide discusses equity and points out that the capacity to pay is a relevant consideration. Our report indicates that there was limited evidence of ratepayer capacity to pay analysis for different socio-economic groups across audited councils, including Boroondara.

The City of Boroondara has raised concerns with the use of the consumer price index (CPI) as a reference point for the average increase in council rates. CPI is a widely understood benchmark in the community that is often used as a reference point for price increases for a range of goods and services. The report also compares average rate increases with the Local Government Cost Index (LGCI), although this index is not likely to be as widely understood in the general community and councils believe the index has some limitations.

The report does not presume that average rate movements should be contained to either CPI or LGCI, but councils should be conscious of the impact that rate increases have on their ratepayers and clearly articulate the reasons for any significant variations.

We further note that a number of councils make explicit references and comparisons of their rate increases to CPI in their budgets.

RESPONSE provided by the Chief Executive Officer, City of Casey

58-25
MT/SJ

RECEIVED 12 FEB 2013 VICTORIAN AUDITOR-GENERAL'S OFFICE

City of Casey

12 February 2013

Dr P Frost
Acting Auditor-General
Victorian Auditor-General's Office
By Email Transmission comments@audit.vic.gov.au

Dear Dr Frost

Proposed Audit Report – Rating Practices in Local Government - Management Submission

I refer to your letter dated 30 January 2013 addressed to the Mayor Cr Amanda Stapledon.

Thank you for the opportunity to provide Council's submission for inclusion in the Report.

1. Audit Summary-Recommendation No. 7. Council supports the periodic review of Councils' rating strategies. The most appropriate time frame for the periodic review would be in line with the development of the Council Plan that Councils have to develop within 6 months of the general election or by 30 June of the next year, i.e. a four yearly cycle. Council will be undertaking a review of its Rating Strategy in 2013 as part of the development of the 2013-2017 Council Plan. Council supports Recommendations 8 and 9.

2. 1.4.4 Valuer-General Victoria. The distinguishing feature, and strength, of the Victorian rating system is the separation of the valuation authority roles of Councils and the specification/certification/audit role of the Valuer-General. The Report notes the recent development of the Valuer-General undertaking rating valuations but has chosen not to comment whether this is an appropriate development. Council believes that the Valuer-General should not undertake municipal rating valuations but maintain its role exclusively as the certifier/auditor of municipal rating valuations.

3. Rating Outcomes – Recommendations. Council supports the development of a more appropriate Local Government Cost Index better reflecting the costs that Councils are exposed to. Council complies with its reporting requirements in the Regulation 8 Statement under the Local Government Act 1989.

4. 2.3.2 – Rates Revenue - Figure 2B. The commentary under this heading makes comparisons between Council types that, effectively, have different population bases. A more useful point of comparison and presentation to that presented in Figure 2B would be the rates and charges paid per capita across the 12 audited Councils. Councils provide inter-generational services and supporting infrastructure from the newborn (maternal and child health centres) to the elderly (senior citizens centres). A per capita assessment is a recognised point of comparison in the local government industry.

/..2

Victoria's Largest and Most Vibrant Municipality

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Telephone 03 9705 5200
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Website www.casey.vic.gov.au
ABN 43 320 295 742

RESPONSE provided by the Chief Executive Officer, City of Casey – continued

58-25 - Page 2 - 12 February 2013

Council's population as at 30 June/1 July 2012 was 261,200. This equates to $564 per capita on a rates and charges basis.

5. 2.3.5 – Rate-in-the-dollar outcomes confirm that the Proposed Report correctly identifies that the City of Casey does not have differential rates. The City of Casey's Rating Strategy, adopted by Council in January 2008, adopted a uniform rate for the reason, "*that the use of multiple rates is not likely to render a rating system that is any more equitable than that where the proportion of rates paid by any ratepayer is equal to the proportion of their improved property value.*"

6. 2.4.1. – Rates Data-Comparability Issues. Council's Regulation 8 Statement under the Local Government Act 1989 lists the statutory disclosures referred to in the Proposed Report.

7. Figure 3A – Strategic Planning Framework. I refer to point 2 on Page 1 of this letter and the suggested four yearly rating strategy reviews. That time frame is consistent and supported in Figure 3A by the 4 yearly time frames for Council Plan being "medium term planning and sustainability."

8. Figure 3B. The Criterion referred to have been addressed in Council's Rating Strategy.

9. 3.5.2 Statutory Reporting Requirements. Council does not use parts of the ICAA Model Budget, but ensures that it complies with the legislative requirements of the Local Government Act 1989 and it's supporting Regulations when preparing annual budgets.

10. Applying the Rating Framework – Recommendations. Council supports periodic review of rating strategies. Council adopted its current Rating Strategy in January 2008 and the Strategy has underpinned successive annual budgets since that time. Council will review its Rating Strategy as part of the new Councillor's Induction Program and the development of the new Council Plan early in 2013.

11. Page 29. Adequacy of Current Rating Strategies. Council's Rating Strategy, adopted in January 2008, was based on the Guide and therefore included the "Better Practice Content" referred to in Figure 4A.

12. 5.3.2 Communication Processes. I confirm the Proposed Report's comment that Council ceased conducting public information sessions. This does not reflect a lack of consultation on Council's part, which uses a number of different means to communicate the draft budget and seek feedback and submissions from the community.

Yours faithfully

Mike Tyler

Mike Tyler
Chief Executive Officer

c.c. Mr M Demetrious

RESPONSE provided by the Chief Executive Officer, City of Greater Dandenong

GREATER DANDENONG
City of Opportunity

Reference: Mick Jaensch – 9239 5256
Enquiries:

13 February, 2013

RECEIVED
12 FEB 2013
VICTORIAN AUDITOR-GENERAL'S OFFICE

Dr Peter Frost
Acting Auditor General
Victorian Auditor-General's Office
Level 24, 35 Collins Street,
Melbourne, 3000

Dear Dr Frost

Rating Practices in Local Government

Thank you for the opportunity to comment in respect of the ***Rating Practices in Local Government*** performance audit.

At the outset there are many observations and findings within this audit that are fully supported by the Greater Dandenong City Council.

This Council has a comprehensive and stand alone Rating Strategy document that is reviewed every two years in line with revaluation cycles. The Rating Strategy focuses on how Council equitably distributes the rating burden and NOT on the quantum of rates which is dealt with –appropriately in Councils opinion - through the long term financial planning and annual budgeting process.

Further, the 'City of Greater Dandenong' Rating Strategy is formally adopted by Council and incorporated into a publicized community submission process under Section 223 of the Local Government Act 1989. Council has also applied the practice of individually writing to any ratepayer impacted by proposed changes to the Rating Strategy and responding actively, to each submission received individually and in many cases, to great detail.

It is pleasing to note that the 'City of Greater Dandenong Rating Strategy' is acknowledged in the performance audit as a better practice example and Council will seek to further improve the strategy in line with other audit findings and will consider in particular, how the strategy can be better communicated through various means to residents.

Greater Dandenong City Council further supports the audit recommendation for the development of a more accurate measure of the annual indexing of the cost of providing Local Government services. Council accepts that individual Councils can then benchmark their performance against this index and provide local communities with an understanding of why their council may vary from this index and the resourcing decisions that have led to that decision.

Customer Service
Springvale
397-405 Springvale Road
Dandenong
39 Clow Street
Noble Park
18-32 Buckley Street

Keysborough
Shop A7
Parkmore Shopping Centre
Business Development Centre
Suite 1, 4th Floor
329 Thomas Street
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RESPONSE provided by the Chief Executive Officer, City of Greater Dandenong – continued

-2-

By extension, Council believes such an index should be applied to increases in government grant funding for ongoing service provision and statutory fees and fines.

Council would however like to take this opportunity to express a level of concern at some aspects of the performance report. Council has consistently, throughout the audit process, provided feedback to VAGO that the concept of how the rating burden is equitably distributed should not be inter-mingled and therefore confused with the issue of quantum of rates raised. The performance audit continues to mix these concepts, which is to the detriment of the final audit report.

It is the view of my Council that a Rating Strategy should NOT include the quantum of rates but instead focus on how Councils should apply the taxation principles in choosing the rating tools and framework that apply to their Council. There are other appropriate mechanisms to deal with 'quantum of rates' – not the least of which is a comprehensive and transparent long term financial strategy and annual budgetary process.

Council is further disappointed that the performance audit, in its opening summary, focuses on mean rating increases in Victorian Local Government (over 8 years), comparing this to CPI which has little or no relevance to the cost of providing local government services. That this information is provided without any contextual information or further analysis on the key drivers of local government rates (such as reducing government funding of ongoing service programs) may lead to understanding and reporting of this performance audit being skewed.

Once again I thank you for the opportunity to make comment and look forward to this response being included in the performance audit.

Yours sincerely,

John Bennie
Chief Executive Officer

Acting Auditor-General's response to the City of Greater Dandenong

We note the City of Greater Dandenong's comments in relation to how the rating burden is equitably spread and the quantum of rates raised. We remain of the view that councils have to make decisions on rates taking into account other revenue sources, and do not believe we have confused the concepts of distributing the rates burden and the quantum of rates to be raised. *Developing a Rating Strategy: A Guide for Councils* discusses the need to carefully consider the relationship between rates, other sources of income, and council expenditure totals. It also emphasises that the starting point for a rating strategy should be the broader revenue picture. It was beyond the scope of the audit to assess the quantum of revenue councils raised—we simply report actual data on the amounts raised and trends across the audited councils.

Similar to the City of Boroondara, the City of Greater Dandenong has also raised concerns with the use of the consumer price index (CPI) as a reference point for the average increase in council rates.

Our further audit comment mirrors our response to the City of Boroondara's CPI concerns. We also note that the City of Greater Dandenong is one of the councils that makes explicit reference to CPI and rate increases in its 2012–13 budget.

RESPONSE provided by the Chief Officer, Darebin City Council

City of DAREBIN

In reply please quote
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VICTORIAN AUDITOR-GENERAL OFFICE

12 February 2013

Dr Peter Frost
Acting Auditor-General
Victorian Auditor General's Office
Level 24, 35 Collins Street
Melbourne Vic 3000

Dear Dr Frost

RATING PRACTICES – PROPOSED AUDIT REPORT

Thank you for the opportunity to comment on the *Rating Practices in Local Government* report.

Darebin City Council is supportive of this performance audit and agrees there is an opportunity to improve the rating practices in local government. The nine recommendations in the report are appropriate, relevant and will strengthen the performance of rating practices in Victorian local councils.

Recommendation 4, requiring the public reporting against key performance measures, will be challenging given the diverse nature of local government. Darebin would welcome consultation and involvement in the establishment of this framework.

Recommendation 9, requiring the development and implementation of a comprehensive ratepayer communication and engagement strategy, is appropriate but extremely challenging. At Darebin, despite the sending of personalised letters to ratepayers adversely impacted by changes to the differential rating structure and the holding of community forums, the impact of any rate changes are not understood by ratepayers until they receive their rate notice in August, well after any change may be made to the rating structure for the current year.

This year, with the introduction of the fire brigade levy on rate notices, the Department of Planning and Community Development should be providing general communication to the community advising them of this major change.

The Department of Planning and Community Development's guidance and timely advice in relation to recent legislative changes concerning differential rates will also be welcome.

Yours sincerely

Rasiah Dev | Chief Officer | Darebin City Council
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cc. Darebin Mayor
Mr Michael Demetrious - VAGO

Northland Customer Service Centre: Northland Shopping Centre, Murray Road, Preston
Northcote Customer Service Centre: 32–38 Separation Street, Northcote
Reservoir Customer Service Centre: Reservoir Civic Centre, 23 Edwardes Street, Reservoir

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Report title	Date tabled
Carer Support Programs (2012–13:1)	August 2012
Investment Attraction (2012–13:2)	August 2012
Fare Evasion on Public Transport (2012–13:3)	August 2012
Programs for Students with Special Learning Needs (2012–13:4)	August 2012
Energy Efficiency in the Health Sector (2012–13:5)	September 2012
Consumer Participation in the Health System (2012–13:6)	October 2012
Managing Major Projects (2012–13:7)	October 2012
Collections Management in Cultural Agencies (2012–13:8)	October 2012
Effectiveness of Compliance Activities: Departments of Primary Industries and Sustainability and Environment (2012–13:9)	October 2012
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011–12 (2012–13:10)	November 2012
Public Hospitals: Results of the 2011–12 Audits (2012–13:11)	November 2012
Water Entities: Results of the 2011–12 Audits (2012–13:12)	November 2012
Port of Melbourne Channel Deepening Project: Achievement of Objectives (2012–13:13)	November 2012
Portfolio Departments and Associated Entities: Results of the 2011–12 Audits (2012–13:14)	November 2012
Local Government: Results of the 2011–12 Audits (2012–13:15)	November 2012
Prison Capacity Planning (2012–13:16)	November 2012
Student Completion Rates (2012–13:17)	November 2012
Management of the Provincial Victoria Growth Fund (2012–13:18)	December 2012
Learning Technologies in Government Schools (2012–13:19)	December 2012
Addressing Homelessness: Partnerships and Plans (2012–13:20)	February 2013
Implementation of School Infrastructure Programs (2012–13:21)	February 2013

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