Managing local government rates and charges

Report 17: 2017–18

Queensland
Audit Office
Better public services

Queensland Audit Office
Better public services

Your ref:
Our ref: 2017-9165P

28 June 2018

The Honourable C Pitt MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Speaker

Report to parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled M*anaging local government rates and charges* (Report 17: 2017–18).

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

Brendan Worrall
Auditor-General

Contents

Audit objective and scope

This report is the second in a series of performance audits on the financial sustainability of the local government sector. It follows our 2016–17 audit on forecasting the sustainability of local government (*Forecasting long-term sustainability of local government* (Report 2: 2016–17)).

In Report 2: 2016–17 we noted councils need to generate sufficient finances to continue to operate without eroding their physical asset base. The major recurrent sources of finance available to councils are rates, fees and charges, and grants.

This audit examines rates and charges. Future audits will examine other elements of financial management such as the cost of local government services and strategic asset management.

The objective of the audit was to examine whether councils set and administer rates and charges appropriately to support long-term financial sustainability.

We assessed whether a selection of councils:

- have robust and transparent processes for setting rates and charges
- have revenue policies and statements that meet legislative requirements
- effectively administer rates and charges according to legislation and better practice.

Our scope included a high-level review and analysis of published budget documents of all non-Indigenous councils. We excluded Indigenous councils because most of them do not charge general rates.

We also audited one council from each of five of the Local Government Association of Queensland's segments:

- coastal
- resources
- rural/regional
- rural/remote
- South East Queensland.

We gave each audited council a detailed brief specific to it and we used the findings for this report.

More information about the audit objectives and methods is in Appendix B.

Key facts

The five audited councils use between 16 and 72 different general rates categories

In 2016–17, 44 councils were at high or moderate risk of becoming unsustainable

77 Queensland councils provide services to nearly five million people

Councils collect rates, levies, fees and charges of more than $6 billion per year—which is about half of their total revenue

In 2016–17, total council revenue from rates and levies increased by $236 million

Introduction

In 2016–17, Queensland's 77 councils generated more than $6.2 billion revenue in rates and levies. This was approximately 50 per cent of their total revenue. For many of them, rates, levies, fees, and charges are the main source of revenue other than Queensland and Australian Government grant funding.

Rates and charges

There are four types of rates and charges:

- general rates—these contribute to services and facilities that everyone uses, such as roads, parks, sporting and cultural facilities, and general council administration
- special rates and charges—for services and facilities that only benefit particular properties, such as rural fire equipment for certain rural areas
- utility charges—for waste management, sewerage, and water services
- separate rates and charges—for any other service or facility not already covered.

Appendix C provides full definitions of the main terms used in this report.

General rates are, in effect, a general tax providing a revenue base to fund council activities that are not funded by the other three types of rates and charges, or other sources of revenue. They are a tax based on the value of land, not a fee for a particular service or facility.

The *Local Government Act 2009* (the Act) and the Local Government Regulation 2012 (the Regulation) allow councils to develop their own approaches to meet their communities' needs through rates and charges. A council's approach is referred to as a rates strategy.

A rates strategy may include, for example:

- how a council decides to charge different amounts of general rates for different categories of rateable land
- how it sets minimum levels of rates for different categories
- whether it caps rate increases
- whether it uses averages of two or three years of valuations to calculate general rates.

Setting rates and budgets

The Act and Regulation prescribe how councils must develop their annual budgets and set rates and charges each year. Under the Act, mayors present their budgets to councillors, who consider and adopt them by resolution, with or without amendment. In practice, council staff and chief executive officers assist and support mayors in developing budgets over many months. Councillors are often involved in this process.

The Act and Regulation also require that councils:

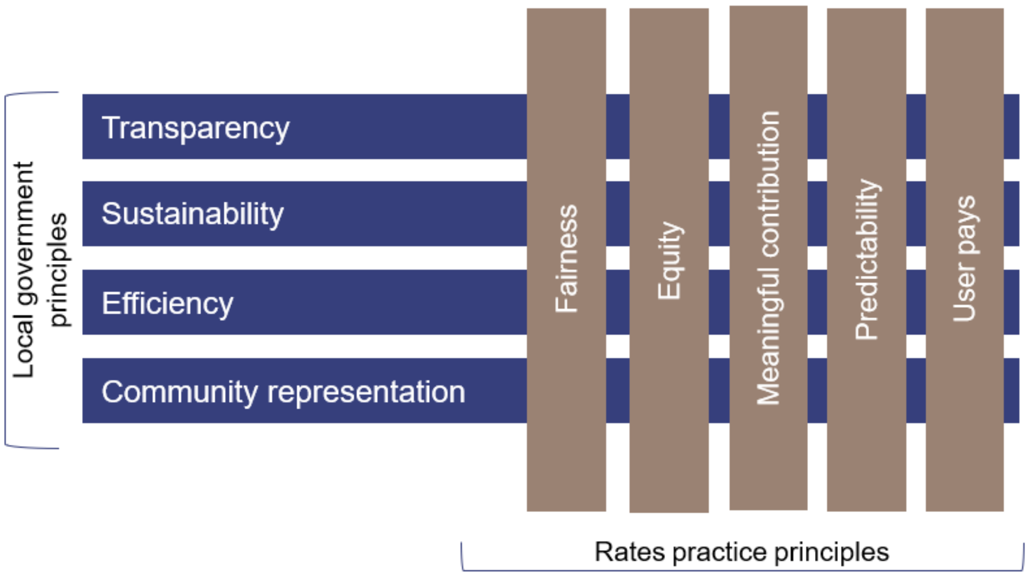
- adopt their budgets before 1 August each year
- include in their budgets a range of documents (such as a revenue statement and a revenue policy)
- pass a resolution each year at their annual budget meeting setting out the differential rates categories they intend to use in the financial year
- pass a resolution each year at their annual budget meeting setting the rates and charges for the financial year.

The Act also includes local government principles with which councils must comply in everything they do. These include transparency, sustainability, efficiency, and community representation. As well as these principles, some court cases and other research identify a range of principles specifically about rates and charges (these are known as rates practice principles).

Figure A shows the complexity councils face in balancing all these principles when setting rates, developing financial forecasts and budgets.

Figure A

Key principles for forecasting and managing rates effectively



Source: Queensland Audit Office adapted from the Local Government Act ss. 3 and 4, the Australian Productivity Commission's April 2008 report: Assessing Local Government Revenue Raising Capacity, and the Department of Local Government, Racing and Multicultural Affairs' June 2017 Guideline on equity and fairness in rating for Queensland local governments.

Financial sustainability

A council is financially sustainable if it can maintain its financial capital and infrastructure capital over the long term (at least 10 years). Infrastructure capital refers to a council's physical assets, many of which do not have any return on investment and yet require considerable maintenance over their long lives. They include things like roads, water pipes, storage and treatment facilities, sporting fields, playgrounds, parks and gardens.

Most councils raise revenue through rates and charges. Ideally, councils set rates and charges at a level that allows them to maintain their assets in the short- and long-term and deliver services in line with community expectations now and in the future.

For some councils, the rates they can collect from their limited ratepayer base is very small compared to their reliance on other sources of revenue such as state and federal government grants and subsidies. But even these councils must manage this revenue source well to contribute to their long-term sustainability.

Under the Regulation, councils must calculate and disclose key financial sustainability measures in budget documents, long-term financial forecasts, and annual reports. In our report on *Forecasting long term sustainability of local government* (Report 2: 2016–17) we recommended, among other things, that the now Department of Local Government, Racing and Multicultural Affairs allow councils to set their own financial sustainability targets where they can justify that a different target is more appropriate for their long-term sustainability.

The Department is currently considering this recommendation but has not yet implemented it. In the meantime, the measures currently specified in the Regulation are the:

- operating surplus ratio—the extent to which a council's operating revenue covers operating expenses (a positive ratio means the surplus can be used to build or replace assets or repay debt)
- asset sustainability ratio—approximates the extent to which a council is replacing its assets as they reach the end of their useful lives
- net financial liabilities ratio—the extent to which a council's operating revenue can cover its liabilities (such as loans and leases).

Overdue rates and charges

The Regulation includes a range of options for councils to use when rates are unpaid or overdue. These include charging interest, taking court action, selling land, and acquiring land.

These and other legislative requirements and guidelines governing recovery of overdue rates and charges are complex, but the significance of the outcomes (for example, sale of land without the owner's approval) makes it critical that councils comply with them.

Summary of audit findings

How transparent are councils’ rates strategies?

The five councils we audited use between 16 and 72 differential rates categories. They also use minimum charges, where the rates are set at a minimum level regardless of the value of the land. Within the residential property categories, across the five councils, between 23 to 87 per cent of properties are charged at the minimum level.

One of the councils we audited publishes a comprehensive description of its rates categories, why it uses the different categories, and the rationale for the different levels of rates for each category. This council includes this description in its annual revenue statement. The other four councils we audited do not provide this level of detail in their revenue statements or policies.

Three of the five councils' revenue policies include all information required by the Regulation (section 193). One includes most of the information but not all of it. The fifth council does not have a current revenue policy at all. Section 193 of the Regulation requires councils to include in their revenue policies, among other things, the principles they intend to apply when levying rates and charges and granting concessions.

Although the Regulation does not require councils to document their rates strategies, this absence of detail limits the ability of ratepayers to understand the drivers of general rates. It also makes it hard to compare and predict the level of general rates that different councils charge for similar properties.

Do councils consider sustainability when setting rates?

Setting rates and charges

The budgeting and forecasting processes of the five councils’ we audited identify their short- and long-term revenue needs. Revenue needs should reflect the full cost of maintaining and replacing council's assets. We expected to see councils increasing rates to cover the gap between their forecast revenue from other sources and their forecast revenue needs. However, we found that their decisions to increase rates and charges at certain levels are not directly linked to their forecast revenue needs. Rather, they increase rates at levels that councils consider to be fair and reasonable for their ratepayers, rather than with a focus on operating sustainably over the long term without eroding their physical asset base.

Their rate modelling processes put their rates strategies into practice and focus on rates practice principles such as fairness, equity, and meaningful contribution. This rate modelling aims to minimise the impact on properties with higher valuation changes and achieve an overall level of rate increase with which the councils are comfortable.

One council has data available to enable it to fully understand the cost of its utilities (for example water, rubbish and sewerage). The other four councils could not confirm that their individual utilities are operating in a way that is financially sustainable in the long term. They do not fully understand the cost of providing their utilities and the extent of any cross-subsidisation of them from general rates or other charges.

Increasing rates and charges transparently

We found that the rationale for increasing rates and charges at certain levels is not as transparent as it could be. The councils we audited do not fully explain to ratepayers why their rates and charges have increased by the amount they have, and whether those increases are enough to keep the council sustainable. The Act and Regulation do not currently require councils to provide this level of information.

Demonstrating long-term financial sustainability

All of the five councils we audited could verbally explain the actions that they are taking to work towards achieving the target ranges for the three statutory financial ratios. Two of the three councils have corporate and operational plans that go some way to broadly demonstrating how they are addressing gaps between their forecasts and the targets. But none have specifically documented an action plan for that purpose that allows them to closely monitor their progress towards, or to maintain, financial sustainability.

Over the five years to 2016–17, the local government sector (all 77 councils) had an operating surplus ratio of -4.13 per cent, well below the target range of 0 to 10 per cent. Meaning the sector as a whole spends four per cent more than it earns each year. Of the five councils we audited, only one had an average operating surplus ratio within the target range.

Community engagement

We found that none of the five councils could demonstrate that their communities had input to their budgets and rate setting decisions. Similarly, they could not demonstrate that their communities were involved in determining the level and quality of services and facilities the councils provide and the rates and charges the community is prepared to pay for them. Two of the councils we audited have started to do this by conducting community surveys to measure satisfaction with council services and facilities.

A Queensland council (one we did not audit) is using a different approach to community engagement. This council publishes draft budgets and proposed rate increases and allows the community 28 days to make submissions before finalising them. The council also uses other tools to communicate with the community and hear their views about what rates and charges pay for, and about council's budget and long-term sustainability.

Are councils meeting their legislative obligations?

Budget documents

Our desktop review of all 60 non-Indigenous councils' 2017–18 budget documents including their revenue statements and revenue policies, showed that only a few of them clearly include all relevant information using the same terminology and format as specified in the Regulation.

These results highlight the need for councils to improve their understanding of the disclosure and process requirements in the Act and Regulation to ensure that these crucial documents include all relevant information in a way that can be easily identifiable and comparable across councils. This will allow the community and other stakeholders to make more informed decisions about how well their councils are managing their finances.

Rates and charges resolutions

A number of councils' resolutions to adopt their rates and charges for 2017–18 were very similar to those of the Fraser Coast Regional Council. In November 2017, the Supreme Court found the Fraser Coast Regional Council's resolutions were invalid.

To address this issue, the Queensland Parliament has recently passed legislation to validate all councils' prior rates and charges resolutions. However, the validating legislation does not assist any councils' future budget resolutions that do not strictly comply with the Act and Regulations. Without building their capability to correctly apply the Act and Regulations, councils risk setting rates and charges that they cannot legally collect.

Overdue rates and charges

One of the councils we audited had sold vacant land to recover overdue rates and charges before it was legally entitled to.

None of the councils we audited had sufficiently detailed policies and procedures for recovery of overdue rates and charges. Councils must comply with specific and technical requirements in the Act and Regulation, which overlap with other legislation and debt recovery guidelines. Staff need clear guidance and procedures to follow to make sure they, and their legal or collection agents, comply.

We found that the councils are not using all the legislative tools available to recover overdue rates and charges as efficiently and fairly as possible. None of the five councils has ongoing formal training or quality assurance processes to improve their debt collection activities.

All audited councils also lacked a policy or application process for ratepayers to use in situations of genuine hardship. Requests are assessed on a case-by-case basis by councils, but it is unclear what information is required when applying for a concession under the Regulation.

Audit conclusions

Queensland councils walk a fine line when balancing competing principles like financial sustainability against fairness and equity.

They have significantly more autonomy than councils in other states. The benefit of this autonomy is that they can tailor their rates and charges to meet the needs of their communities. However, with this autonomy comes the responsibility to be very clear about how and why rates decisions are made.

One of the five councils we audited provides good information to its ratepayers about its rates strategy. The other four councils need to provide clearer rates strategies to their communities. Currently, those councils' ratepayers do not have enough information to understand:

- why councils have established the suite of different categories they use
- how general rates are determined and why some categories are charged more than others
- the economic and other factors that influence councils' rates decisions (including that they have a range of assets to maintain over the long term).

None of the five councils provides enough information to help ratepayers predict how rates may change in the longer term (over the next 10 years). This lack of transparency can lead to a distrust in local government rates practices.

Councils still have work to do to improve their financial planning and forecasting. The five councils we audited are working toward improving their management of their infrastructure assets—it is critical they complete this work and factor asset maintenance and replacement into their rate setting decisions.

The rate increase decisions we audited were generally made behind closed doors with limited community input. While councils' final rates decisions are recorded, the decision-making process and the reasons for those decisions are not usually documented. Therefore, it is not clear how rate increase decisions ultimately support long-term sustainability.

On the whole, councils need more support and guidance to help them in understanding their obligations under the Act and Regulation and in making sure they comply with all requirements.

Recommendations

Department of Local Government, Racing and Multicultural Affairs

We recommend that the Department of Local Government, Racing and Multicultural Affairs:

1. amends the Local Government Regulation 2012* to:
   - require councils to include in their revenue policies a long-term rates strategy (Chapter 2)
   - require councils to include in their revenue statements how annual decisions on rates and charges support financial sustainability (Chapter 3)
   - require a council's chief executive officer to certify to the mayor (in a prescribed form) that the council's final adopted budget complies with all legislative requirements (Chapter 4)
2. continues to develop best practice tools and templates for councils on the budget and rates provisions of the *Local Government Act 2009** and the Local Government Regulation 2012* (Chapter 4)
3. develops resources and tools for councils on:
   - best practice community engagement approaches to strengthen community understanding of, and input into, the rates decisions required to ensure continuation of services (Chapter 3)
   - the budget documents and overdue rates and charges provisions of the *Local Government Act 2009** and the Local Government Regulation 2012* (Chapter 4)
   - chapter 4 part 12 of the Local Government Regulation 2012* (Chapter 4).

All Queensland councils

We recommend that all Queensland councils:

4. document the actions they are taking to support their financial forecast that are required to achieve or maintain sustainability:
    - the actions should be specific, measurable, achievable, realistic, and time-bound, and be allocated to responsible officers (Chapter 3)
    - the document should have a long-term focus (10 years) and include the assumptions on which the forecast is based, the risks that may impact on achieving the forecast, and the factors driving the forecast (including links to strategic asset management plans) (Chapter 3)
5. implement an appropriate costing model to gain a clear understanding of the full cost of delivering utilities and use this information to annually review pricing (Chapter 3)
6. implement appropriate community engagement approaches to strengthen community understanding of, and input into, the rates decisions required to ensure continuation of services (Chapter 3)
7. publish a hardship policy to assist ratepayers to seek a concession for hardship as allowed by section 120(1)(c) of the Local Government Regulation 2012* (Chapter 4)
8. ensure that all future budget documents and resolutions and rates and charges resolutions comply with all requirements in the *Local Government Act 2009** and the Local Government Regulation 2012*
9. train staff on all relevant requirements in the Local Government Regulation 2012*, and on better practice debt collection techniques (Chapter 4).

* All recommendations about the *Local Government Act 2009* and the Local Government Regulation 2012 apply to the equivalent provisions in the *City of Brisbane Act 2010* and the City of Brisbane Regulation 2012 as relevant.

1. Context

This section provides the background to the audit and the context relevant to the audit findings and conclusions.

Sustainable revenue through rates and charges

As at 30 June 2017, 77 councils in Queensland were providing services to nearly five million people—ranging from 290 residents to 1.1 million residents per council.

For many councils, rates, levies, fees, and charges are the primary source of revenue other than Queensland and Australian Government grant funding.

Our report *Forecasting long-term sustainability of local government* (Report 2: 2016–17) (the financial sustainability audit) highlighted the need for greater action on local government sustainability. The report presented case studies that illustrate the effect of poor asset data and inaccurate expense forecasting on the setting of rates.

This report focuses on managing financial sustainability through rates and charges. Future audits will assess other aspects of financial sustainability, including costs and expenses and asset management.

Reliance on rates for revenue

In our reports to parliament on the results of local government audits, we have commented on the overall reductions in government grants. We have also mentioned instability in other revenue sources due to changes in economic activity at the national, state, and local levels. This creates pressure for councils, increasing their reliance on own-source revenue such as rates.

With a statewide population growth of 18 per cent projected to 2026, many councils will continue to face challenges in meeting rising service demand. However, some councils experience much lower growth rates, and some have no predicted growth in their populations.

For a small number of councils, rates revenue only makes a small contribution to their overall financial position. These councils are almost entirely dependent on state and federal government grants and on contracts for supply of services such as road maintenance.

Regardless of the extent to which rates contribute to their overall financial position, all councils need to balance the need to raise revenue through rates and charges against community expectations about service standards. Each council needs to reflect these commitments in its long-term forecasts.

Relevant legislation

Relevant rates requirements for councils are contained in the:

- *Local Government Act 2009* (the Act)
- *City of Brisbane Act 2010*—only applies to Brisbane City Council
- Local Government Regulation 2012 (the Regulation)
- City of Brisbane Regulation 2012—only applies to Brisbane City Council.

Under this legislation, Queensland councils have a high level of autonomy to levy a range of rates and charges at levels they deem appropriate. The Department of Local Government, Racing and Multicultural Affairs (the department) has published several guidelines to help councils in implementing the legislation. These include:

- the *Own source revenue: policies and options for Local Governments—a reference*
- *the Financial management (sustainability) guideline 2013*
- *the Guideline on equity and fairness in rating for Queensland local governments*.

In this report, we refer to the Act and the Regulation for simplicity, but the same provisions exist in the *City of Brisbane Act 2010* and the City of Brisbane Regulation 2012.

Local government and other principles

The Act states that councillors and local government employees must demonstrate ethical and legal behaviour. It also establishes other broad local government principles with which councils must comply. These principles, which apply to all aspects of councils' activities are:

- transparency—processes are transparent and effective, and decision-making is in the public interest
- sustainability—assets and infrastructure are developed and maintained, and services are delivered in effective and sustainable ways
- efficiency—there is good governance of, and by, local government
- community representation—councils have democratic representation, social inclusion, and meaningful community engagement.

Some court cases and other research identify a range of principles specifically about rates and charges. In June 2017, the department released the *Guideline on equity and fairness in rating for Queensland local governments*, which summarises the relevant case law and best practice approaches. The guideline aims to promote best practice and greater consistency of rates practices across Queensland.

We have grouped all the principles into two key themes:

- local government principles—the overarching principles with which councils must comply in delivering a viable service for the community
- rates practice principles—the best practice principles councils should observe in raising rates and charges revenue appropriate for the community.

Local government principles

Local governments (councils) must use these principles to guide them in managing infrastructure and financial resources appropriately. The local government principles, and the mechanisms councils can use to implement them, are listed in Figure 1A.

Figure 1A
Local government principles

Principle	Interpretation	Mechanisms
Transparency	Good decision-making in the public interest is supported by transparent processes and reasoning.	Having clear revenue policies and revenue statements with adequate detail on what influences rates charges.
Sustainability	Sustainable delivery of services is supported by appropriate management of financial and non-financial resources, balancing current and future priorities.	Having rigorous long-term forecasting and planning processes that link to the operational planning for council. Making decisions on changes in rates and charges while being aware of levels of service and council sustainability.
Efficiency	Efficiency is supported by simple, well-executed processes, good governance, and ethical and legal behaviour.	Having rates practices that reflect the complexity of the council's region. Having timely and appropriate revenue collection processes.
Community representation	Democratic representation is supported by meaningful community engagement.	Having clear community engagement.

Source: Queensland Audit Office adapted from the Local Government Act ss. 3 and 4, the Australian Productivity Commission's April 2008 report: Assessing Local Government Revenue Raising Capacity, and the department's June 2017 Guideline on equity and fairness in rating for Queensland local governments.

Rates practice principles

The rates practice principles, and the mechanisms councils can use to implement them, are listed in Figure 1B.

Figure 1B
Rates practice principles

Principle	Interpretation	Mechanisms
Fairness	There should be flexibility to deliver fair and equitable outcomes through rates practices.	Establishing an appropriate number of differential rates categories and setting an appropriate level of rates for each category. Allowing discounts or concessions based on ratepayer circumstances—balanced against overall fairness across the community.
Equity	Parcels of similarly valued land, which are used for the same or similar purposes, and receive similar services, should be levied similar general rates.	Establishing an appropriate number of differential rates categories and setting an appropriate level of rates for each category. Maintaining a connection between property valuations and general rates charged.
Meaningful contribution	There should be recognition of the characteristics which necessitate differences in services or facilities, e.g. land use, to ensure revenue contribution is meaningful across the community. Where land valuations are so low that revenue generation from the community becomes too disparate, there should be provision to support a base level contribution.	Establishing an appropriate number of differential rates categories and setting an appropriate level of rates for each category. Setting minimum general rates when property valuations in a rates category are so low that the cents in the dollar rate does not raise a sufficient level of rates.
Predictability	There should be a reasonable level of predictability in the amount of rates levied on parcels of land.	Describing rates categories and their rates and charges in sufficient detail and explaining why some categories are charged higher levels of rates than others. Averaging land valuations and/or applying a rates cap to smooth the rates levied from year to year when valuations increase significantly.
User pays	Where it is possible to tie a specific council-provided service to a user of that service, council should levy rates, fees, or charges directly on those users.	Using special and separate rates and charges and utility charges as appropriate to compensate for cost of service delivery.

Source: Queensland Audit Office adapted from the department's June 2017 Guideline on equity and fairness in rating for Queensland local governments.

The balancing act

Queensland councils can implement their rates strategies in any way they consider appropriate, within the bounds of the Act and Regulation. When creating a rates strategy, councils must balance the various principles. This is critical in terms of forecasting revenue and effectively managing rates and charges.

Some examples of tensions in balancing principles are:

- Using a minimum rate or differential rate category to help support meaningful contribution may conflict with ensuring there is a connection between land valuation and rates charged (meaningful contribution and transparency).
- Setting rates while only considering the impact on rates levied to an individual or group of ratepayers may be to the detriment of the long-term sustainability of the overall council (fairness/user pays and sustainability).
- Using an extensive range of differential rates categories to distribute the rates burden fairly creates complexity and an administrative burden (fairness and efficiency).

Roles and responsibilities

The roles of relevant bodies are detailed in Figure 1C.

Figure 1C
Roles and responsibilities

Role	Responsibilities
Councillors	Communities elect councillors every four years. Their role includes developing and implementing corporate and strategic plans and determining rates and the budget. Councillors also provide a conduit for ratepayers to engage with councils.
Council staff	Council staff are the administrative arm of a local government. They carry out councillors' plans and support them in making informed, strategic decisions. They also advise councillors about their budgets, rates and charges, and ensure councils comply with relevant legislation.
The Department of Local Government, Racing and Multicultural Affairs	Queensland councils exist through Acts of the Parliament of Queensland. Accordingly, the state retains a key role in providing support and advice to councils. This role is assigned to the Department of Local Government, Racing and Multicultural Affairs. The department administers the legislation and supports councils to be accountable, effective, efficient, and sustainable.
Local Government Association of Queensland	The Local Government Association of Queensland is the principal local government advocacy body in Queensland, and all councils are members. It provides education and training, hosts networking forums and roundtable meetings, lobbies the state and federal governments on Queensland local government issues, and coordinates sector-wide legal advice and submissions to parliamentary committees.

Source: Queensland Audit Office.

2. How transparent are councils' rates strategies?

We assessed whether councils' rates strategies are transparent and allow ratepayers to understand how their rates are determined and predict how they will change over time.

Introduction

The *Local Government Act 2009* (the Act) and the Local Government Regulation 2012 (the Regulation), require local governments (councils) to set their rates and charges each year as part of developing their annual budgets.

Councils may levy different amounts of general rates on different categories of rateable land. They have considerable autonomy to establish differential rates categories to meet their needs. If a council decides to establish differential rates categories, it must identify the rates category to which each parcel of rateable land in the local government area belongs. The Regulation requires councils to include all this information in their annual revenue statements.

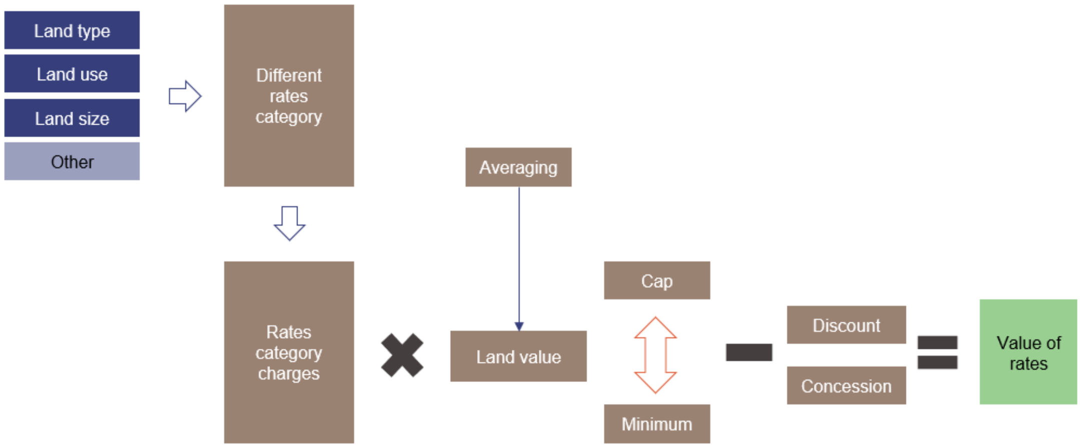
The Regulation also requires councils to adopt a revenue policy. The policy must state the council's overarching principles that they will apply to (among other things) levying rates and charges, and granting concessions for rates and charges. The revenue policy must be reviewed annually.

Rates strategies

The Regulation requires that councils calculate general rates using the rateable value of the land (as determined under the *Land Valuation Act 2010*). However, the valuations of properties used for similar purposes can vary greatly. This is why the Regulation also includes several mechanisms to allow councils to 'smooth out' the impact of large changes in property valuations from year to year.

Figure 2A shows that the amount of general rates councils ultimately charge ratepayers is determined by the mix of mechanisms councils use in their rates strategies.

Figure 2A
Mechanisms used in rates strategies



Note: Inputs shown in blue are objective data values; inputs shown in brown are the various mechanisms councils are permitted to use under the Act and Regulation; and the output is shown in green.

Source: Queensland Audit Office.

Other jurisdictions

In Appendix E, we provide a summary of the key mechanisms councils in four other Australian states may use to develop their rates strategies for general rates. We also show any restrictions on their use.

The key differences between Queensland and these other states include the following:

- Most other states have some restrictions on their use of differential rates categories. Queensland councils may use them in any way they consider appropriate.
- Other states have some limits on the extent to which they can set and increase differential general rates and use minimum rates. Queensland does not.
- Some other states require a level of public consultation when councils are setting rates and charges. Queensland does not.

Queensland councils have significantly more autonomy in key areas when developing their rates strategies. This allows them flexibility to develop rates strategies appropriate to their region, mix of rateable properties, and economic conditions. But this flexibility makes it critical that councils' rates decisions are transparent and support long-term sustainability.

Transparent rates decisions

Figure 2B describes the mechanisms afforded to Queensland councils under the legislation. It illustrates the wide variety of use we observed in the five councils we audited.

Figure 2B
Rates mechanisms in use

Mechanism	Description	Section of Regulation	Observed range of use
Differential rates category	Different categories of rateable land with different levels of rates category charges.	81	From 16 to 72 differential rates categories.
Rates category charge	The cents in the dollar rate charged per dollar of land valuation for each differential rates category.	80	From 0.0025 to 114.4092 cents charged per dollar of valuation.
Averaging land valuation	Used to reduce volatility by using an average of the last two or three years valuations.	74	From none to three years.
Rate cap	Limits the increase in rates in cases where valuations increase significantly in a short timeframe.	116	From none to being applied at the rates category level.
Minimum general rates	Sets a minimum amount of rates per category.	77	From 23 per cent to 87.3 per cent of residential properties are on the minimum rate.
Discount	A reduction in rates for early payment of rates and charges.	130	From none to 10 per cent.
Concession	A rebate or deferral of rates and charges or a transfer of unencumbered land in full or part payment of the rates or charges.	119 to 126	From two to five types of concessions.

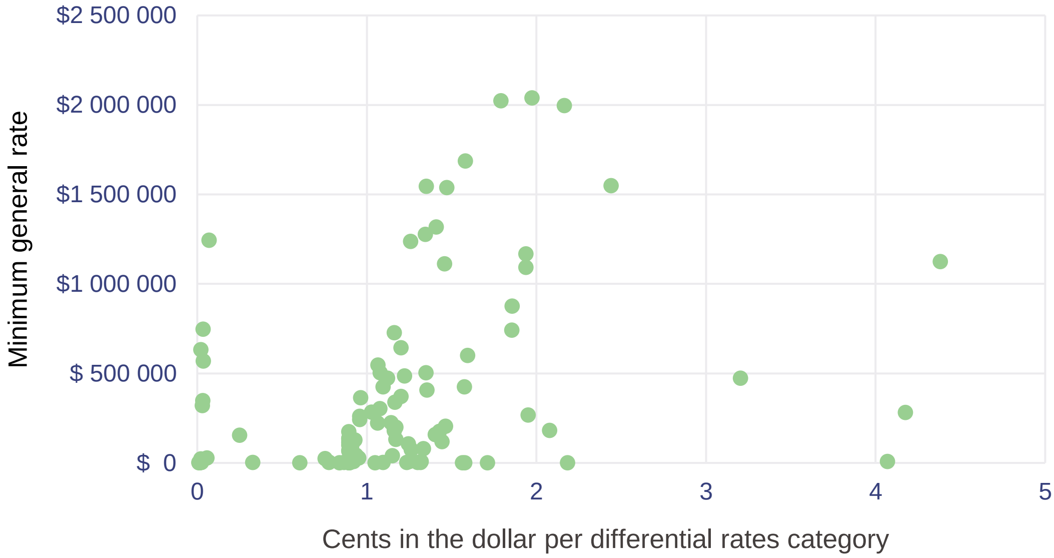
Note: Appendix D further describes the wide variety of mechanisms the five Queensland councils we audited use in their strategies for general rates.

Source: Queensland Audit Office.

As a result of the flexibility illustrated in Figure 2B, we were unable to benchmark the level of general rates different councils charge for similar property types.

For example, for the five councils we audited and an additional six non-audited councils, we identified the rates categories they each use for shops and shopping centres. Figure 2C shows the large variance in cents in the dollar rate and minimum general rates across these councils. It is not possible to compare them in any meaningful way.

Figure 2C
Cents in the dollar per category and minimum general rates for a selection of differential rates categories used for shops and shopping centres across Queensland



Source: Queensland Audit Office.

The more complex the array of mechanisms used, the higher the chance that councils cannot demonstrate the link between property valuations and general rates.

One of the five councils we audited provides, in its annual revenue statement, a comprehensive description of why it uses the differential rates categories it has established, and why some properties are charged more than others. The other four do not provide this level of detail in their revenue statements or policies.

Three of the five councils' revenue policies include all information required by the Regulation (section 193). One includes most of it but not all. The fifth council does not have a current revenue policy. Section 193 of the Regulation requires councils' revenue policies to state:

- the principles the council intends to apply in the financial year for
  - levying rates and charges
  - granting concessions for rates and charges
  - recovering overdue rates and charges
  - cost-recovery methods
- the purpose of any concessions the council intends to grant
- the extent to which physical and social infrastructure costs for a new development are to be funded by charges for the development.

The Regulation does not require councils to describe their rates strategy in any detail. Despite this, we consider it is better practice for councils to describe how they use and balance each of the local government and revenue principles in their rates strategy. They should also outline why their rates categories are appropriate for their community.

The current lack of detail in disclosure:

- affects the ability of ratepayers to understand what influences general rates charges
- makes it hard to compare and predict the level of general rates that different councils charge for similar properties.

This is important because ultimately, councils are not required to provide reasons for their decisions to set rates and charges at certain levels. The only avenue of review or appeal is through court processes for judicial review (only in limited circumstances)—an option ratepayers may see as unrealistic.

This makes it critical that councils' revenue policies provide enough information so that ratepayers can understand:

- why councils have established the suite of differential rates categories they use
- how general rates are set
- the economic and other factors that influence councils' rates decisions (including that they have a range of expensive assets to maintain)
- how rates may change in the longer term (over the next 10 years).

Documenting their rates strategies also helps improve councils' internal processes by providing guidance for relevant staff and ensuring continuity when staff change.

A good rates strategy need not be overly complicated or onerous on councils to develop and keep up to date. It should have a longer-term focus than the annual revenue statement, and include, at a minimum, the information in Figure 2D.

Figure 2D
Components of a good practice rates strategy

Component	Description
General rates	What general rates are used for and how they differ to other types of rates and charges.
Economic and environmental drivers	The economic factors influencing the council's rates decisions over the next 10 years, such as: • the local economy • environmental conditions • asset management requirements • sustainability objectives.
Rates property mix	The nature of the rateable properties in the council's area and the impact they have on the council's services and facilities, revenue, and costs. The extent to which the council relies on rates revenue may also be relevant.
Mechanisms used	How council has decided to use each of the rates mechanisms available in the Regulation, and why. Why council has established its suite of rates categories and how properties are allocated to them. How and when council may change the suite of rates categories and why. How council will communicate those changes. How council has considered and balanced each of the local government (and other) principles in applying the mechanisms.
Link between property valuations and rates	How the council’s use of the rates mechanisms maintains the connection between land valuations and general rates.
Subject to change	The factors or events that may cause the council to review and change the rates strategy over the next 10 years, and how council will communicate those changes.

Source: Queensland Audit Office.

The Act and Regulation also allow councils to use a range of other types of rates and charges, including:

- special rates and charges
- separate rates and charges
- utility charges, for services and facilities such as water, waste, and sewerage.

Councils may also wish to describe their use of these other types of rates and charges in their rates strategies.

3. Do councils consider sustainability when setting rates?

We assessed whether councils' rates decisions support their long-term financial sustainability and are transparent.

Introduction

Under the *Local Government Act 2009* (the Act), a council is financially sustainable if it can maintain its financial capital and infrastructure capital over the long term. Balanced budgets or consistent operating surpluses, on average over the long term, demonstrate sound financial management. When physical assets are being renewed at a rate that is consistent with their long-term consumption, it indicates sound infrastructure management.

Sound financial planning helps councils provide the desired level of service to residents now and in the future. It requires relevant robust modelling of all components of the budget with a focus on long-term sustainability including, but not limited to:

- capital investment: new and renewal costs, and the remaining estimated useful life of existing assets
- operating expenses: materials and employee costs
- growth assumptions: population, rateable properties (volume and mix), and revenue changes.

Our report: *Forecasting long-term sustainability of local government* (Report 2: 2016–17) (the financial sustainability audit) recommended, among other things, that councils improve the quality of their long-term forecasts and financial planning. Figure 3A contains a summary of the relevant findings and recommendations.

Figure 3A
Summary of our previous findings and recommendations relevant to this audit

Findings	Recommendations to councils
Many or most councils: • have very low levels of confidence in their forecasts • do not prepare a long-term financial plan that can be used to engage the community • demonstrate poor budgeting accuracy, influenced by natural disasters and short-term thinking • do not undertake, or cannot demonstrate, sensitivity analysis of key assumptions within their long-term financial forecasts • have not linked their asset management plans to their long-term forecasts, or their asset plans are not up to date • do not have accurate asset condition data. This results in reactive or sub-optimal timing of expenditure on maintenance or renewal.	• Develop financial plans to explain their financial forecasts and how they intend to financially manage the council and its long-life assets. • Engage directly with their communities on future service levels. • Implement a scalable project decision-making framework for all infrastructure asset investments. • Maintain complete and accurate asset condition data and asset management plans.

Source: Queensland Audit Office's Forecasting long-term sustainability of local government (Report 2: 2016–17).

In addition to these recommendations, the financial sustainability audit also recommended that the now Department of Local Government, Racing and Multicultural Affairs (the department) allow councils to set their own financial sustainability targets where they can justify that a different target is more appropriate for their long-term sustainability. The department is currently considering this recommendation.

Currently, under the Act and the Local Government Regulation 2012 (the Regulation), councils must calculate and disclose three key financial sustainability measures in budget documents, long-term financial forecasts, and annual reports. The three measures of sustainability are in Figure 3B.

Figure 3B
Key indicators of sustainability

Measure	Description	Indicator	Target
Operating surplus ratio	The extent to which operating revenue covers operating expenses (a positive ratio means the surplus can be used for capital expenditure or debt repayment).	Financial capital	0–10%
Asset sustainability ratio	Approximates the extent to which assets are replaced as they reach the end of their useful lives.	Infrastructure capital	> 90%
Net financial liabilities ratio	The extent to which operating revenue covers net financial liabilities (usually loans and leases).	Financial capital	< 60%

Source: The Department of Local Government, Racing and Multicultural Affairs: Financial Management Guide 2013 version 1.1.

Where a council is forecasting outside of target ranges (using the current statutory metrics in Figure 3B as indicators of this), better practice requires them to have a clear understanding of the reasons for any shortfalls, and an action plan to address them.

Setting rates and charges for long-term financial sustainability

General rates

The five councils we audited have budgeting and forecasting processes that identify their revenue needs. Those revenue needs include the cost of maintaining and replacing their assets. We expected to see councils increasing rates to cover the gap between their forecast revenue from other sources and their forecast revenue needs. Instead, we found that their decisions to increase rates and charges at certain levels are not directly linked to meeting revenue needs. Rather, rates are increased at levels that councils consider to be fair and reasonable for their ratepayers, given their regions' economic conditions and the size and nature of their ratepayer base.

This means that annual rate increase decisions are not necessarily supporting long-term financial sustainability. The councils' rate increase decisions give more weight to the rates practice principles (such as fairness, equity, and meaningful contribution) and the local government principle of community representation than to the principle of financial sustainability.

Each year, the five councils model the impact of rate decisions across their differential rates categories. Some do this in-house and some outsource rate modelling to contractors. Some councils use simple spreadsheets for rates modelling and some have more sophisticated software.

Rates modelling involves one or more of the following:

- applying the same or a different per cent increase to each rates category
- analysing the impact of regional valuation changes on each rates category and, in some cases, on individual properties
- assessing the number of properties in each category that are on the minimum rate
- recommending changes to the rates categories, the cents in the dollar rate, and/or the minimum rate to minimise the impact of large variations in valuations.

Although councils use these tools as part of their budget development process, we could not see how they linked them to a formal rates strategy.

Utility rates and charges

Councils also have a range of other rates and charges. These include special charges, separate charges, and utilities. Special and separate charges are for particular purposes, and councils use them in a wide variety of ways. For example, they may levy a special rate or charge for maintaining fire-fighting equipment in rural areas. All councils use utility charges, although not all councils charge for water.

One of the five councils we audited has data on the full cost of providing its utilities. The other four could not confirm that their individual utilities were operating in a way that is financially sustainable in the long term. They do not have complete data—including an allocation of corporate overheads, and in some cases, asset replacement and maintenance expenses—to calculate the full costs of providing each of their utilities. This means they do not fully understand the cost of providing their utilities and the extent of any cross-subsidisation of them from general rates or other utilities.

While most councils are not required to operate their water, waste, and sewerage businesses on a full cost-recovery basis, it is important for them to know their total costs and revenue, so they can charge for them in a financially sustainable way.

We have scheduled an audit of local government costs in 2018–19 that will look at whether councils are delivering their services efficiently and economically.

Increasing rates and charges transparently

The rationale for increasing rates and charges at certain levels is not as transparent as it could be. We found that the councils we audited provide ratepayers with general information about the overall level of increases to rates and charges. But they do not explain to ratepayers why their rates and charges have increased by the amount they have, and whether those increases are sustainable.

The Act requires councils to publish their final rates decisions by passing a resolution at their annual budget meetings to adopt a cents in the dollar rate and minimum general rate for each differential rates category. Councils must also resolve to adopt other rates and charges (such as special rates, separate rates and utility charges).

The Regulation also requires councils to include in their budgets the overall per cent increase in rates and utilities each year. They are not, however, required to explain, for example:

- how much each differential rates category has changed from the previous year, and why
- how general rate increases (or decreases) support financial sustainability and align with councils' long-term forecasts.

Demonstrating long-term financial sustainability

Most of the councils we audited could verbally describe the actions they are taking to address any shortfalls in their financial sustainability ratios. Some examples they gave were:

- increasing rates and charges at a moderate rate to achieve an operating surplus within a specified timeframe
- implementing systems to capture better asset data
- constraining costs, including by closely managing employee vacancies.

None had documented all of the specific decisions and actions they are taking in one place, for example, in an action plan.

It is good practice to document these actions to show they are SMART—specific, measurable, achievable, realistic, and time-bound—and allocated to specific responsible officers. This would allow councils to closely monitor their incremental progress towards sustainability.

This is important because, of the five councils we audited, only one is forecasting to have all three of the financial sustainability ratios within the target ranges in the next three years. The other four councils do not expect to achieve the target for all three ratios in the next 10 years.

Community engagement

Consistent with the findings in our financial sustainability report, none of the five councils we audited had a policy, strategy, or plan to connect the community to councils' sustainable revenue objectives on an ongoing basis. Most of the councils only provide general information about rates and charges after the budget is set each year.

Two of the councils we audited had undertaken, or were in the process of undertaking, community surveys. These are useful tools to gather feedback about what councils are doing well and where they could improve. One of the surveys measured community satisfaction about the extent to which the council's works, facilities, and administrative services meet the community's perceived priorities. It also questioned the community about whether it would prefer to leave things as they are in terms of current service levels and rates.

Appendix E shows that some Australian states have mandatory requirements about public consultation on councils' budgets and their rates and charges.

Figure 3C is an example of engagement that allows the community to have input into key decisions affecting them, such as the services the council offers and the impact on their rates and charges. (This was undertaken by a council we did not audit.)

Figure 3C
Good practice case study

Community engagement
A Queensland council has a model for engagement when developing its annual budget. It publishes a draft budget and allows the community 28 days to make submissions. This includes allowing members of the community to attend a special council meeting to discuss their submissions directly with councillors. The council considers submissions when finalising and adopting the final budget. The draft budget includes proposed increases in rates and charges for the next 10 years. As well as the formal submission process, the council also uses other community engagement tools to share information, educate the community about what rates and charges pay for, and hear community views about the budget and council's long-term sustainability. These include: • public briefings on the budget in key population areas in the council area • question and answer sessions where the public can ask questions of the council's chief executive officer and senior staff • 'cuppa with a councillor' meetings throughout the council area • attendance by councillors at local shopping centres and local agricultural shows to hear feedback from the community.

Source: Queensland Audit Office.

4. Are councils meeting their legislative obligations?

We assessed whether councils' budget documents and resolutions comply with relevant legislation and how effectively they use the legislation to recover overdue rates and charges.

Introduction

The *Local Government Act 2009* (the Act) and the Local Government Regulation 2012 (the Regulation) include specific requirements that councils must meet when developing their annual budgets each year and setting rates and charges.

The Regulation requires councils to adopt their budgets by resolution after 31 May in the preceding year but before 1 August of the budget year. The budget documents must contain, among other things:

- the budget for the current year and the following two years
- a long-term (10-year) financial forecast of operational and capital income and expenses
- a revenue statement, which must include an outline and explanation of the rates and charges to be levied
- a revenue policy, which must include the principles councils will apply to levy the rates and charges
- a long-term forecast of three financial sustainability ratios: operating surplus ratio, net financial liabilities ratio, and asset sustainability ratio. (These are explained in Figure 3B.)

The Act and Regulation provide that councils may only decide their rates and charges for a financial year at their annual budget meeting.

In November 2017, the Supreme Court made a decision regarding Fraser Coast Regional Council. This clarified that councils must resolve to set the level of rates and charges for the financial year and this resolution must be separate from the resolution to adopt the annual budget.

Budget documents

The Local Government Association of Queensland groups councils into six segments—coastal, Indigenous, resources, rural/regional, rural/remote, and South East Queensland.

We excluded councils in the Indigenous segment from this audit because most of them do not charge general rates.

Our desktop review of the 60 non-Indigenous councils' published budget documents for 2017–18 suggests that only a few of them have clearly included all the information in the format specified in the following sections of the Regulation:

- 81 (different categories of rates)
- 94 (special rates)
- 169 (budget content)
- 170 (budget adoption)
- 171 (forecasting)
- 172 (revenue statements)
- 193 (revenue policy).

We appreciate that councils may have included the required information using different terminology or in a different way to that specified in the Regulation. However, compliance with section 169 of the Regulation is important for transparency. It requires disclosure of key aspects of councils' budgets. Without this information, the community and other stakeholders may find it difficult to compare councils and make informed decisions about how well their councils are managing their finances.

The main requirements that councils have not clearly included in the format specified by the regulation are:

- income sources, specifically contributions from developers not clearly described and disclosed separately from grants and subsidies (section 169(3) of the Regulation)
- the total value of the change in rates and utilities from the previous year to this year, expressed as a percentage and not just the average change (section 169(6) of the Regulation)
- an overall plan for special rates and charges (section 94(2)–(6) of the Regulation)
- the purpose of granting concessions in the revenue policy as distinct from the principles for granting them (section 193(1)(a) and (b) of the Regulation)
- the extent to which physical and social infrastructure costs for a new development are to be funded by charges for the development (section 193(3) of the Regulation).

Section 170(2) of the Regulation states that if the budget does not comply with section 169 when it is adopted, the budget is of no effect. Section 170(3) of the Regulation provides that a council may, by resolution, amend the budget for a financial year at any time before the end of the financial year.

We have written to all councils about compliance with section 169 of the Regulation, including councils that were part of the audit where we could not see evidence of full compliance. We recommend that all councils carefully review their budgets and amend them if necessary.

Rates and charges resolutions

A number of councils' resolutions to adopt their rates and charges for 2017–18 are sufficiently similar to the Fraser Coast Regional Council's budget resolutions to conclude that they were not valid. This has significant consequences for councils' ability to legally collect revenue from rates and charges that have not been validly adopted.

To address this, on 15 February 2018, the Minister for Local Government, Minister for Racing and Minister for Multicultural Affairs introduced the *Local Government Legislation (Validation of Rates and Charges) Amendment Bill 2018* into the Queensland Parliament. The bill validates all councils' prior rates and charges resolutions, even if they did not strictly comply with the requirements. However, it does not validate future resolutions. Therefore, it is critical that councils ensure that their budget and rates and charges resolutions comply from now on.

During debate on the bill, the minister advised parliament that his department will work in partnership with the Local Government Association of Queensland and with councils to provide advice to help them make future resolutions in line with legislative requirements.

Case study 1 confirms that some councils need help to make sure they comply with their statutory obligations. This council made an error when it adopted its rates and charges for the 2017–18 year. Several months later it tried to fix the error by adopting a new schedule of rates and charges. The Act and Regulation do not allow councils to adopt a revised schedule of rates and charges after the initial resolution at the annual budget meeting. Although the intent of the second resolution was to correct an administrative error and set rates and charges at the level the council intended, the council's decision to pass the second resolution was not valid.

Case study 1

Rates and charges resolution

For the 2017–18 year, the council held its budget meeting in July 2017. At that meeting, councillors resolved to adopt a schedule of cents in the dollar rates and annual minimum rates for each of its rates categories (the first resolution).

Council staff assert that the schedule provided to council, and which council resolved to adopt, was incorrect. If implemented, it would have resulted in the council charging its ratepayers significantly more than council intended. The first resolution stated that council will apply a small increase in the general rates levied.

To correct the error in the first resolution, council staff presented a revised schedule to council. In September 2017, councillors resolved to adopt the amended cents in the dollar rates and minimum rates for its differential rates categories (the second resolution).

Source: Queensland Audit Office.

Overdue rates and charges

The Regulation includes a range of options for councils to use, with specific requirements, when rates are unpaid or overdue. These include charging interest, taking court action, selling land, and acquiring land.

Other legislation and guidelines also impact on councils' activities for levying and collecting rates and charges including:

- the *Information Privacy Act 2009* (Qld) and Queensland's Privacy Principles
- the *Debt Collection Guideline: for collectors and creditors*, which was jointly developed and issued by the Australian Competition and Consumer Commission and the Australian Securities and Investments Commission in 2016.

Policies and procedures

None of the councils we audited had sufficiently detailed debt recovery policies or procedures to guide staff, outline all of their statutory obligations, and clarify how to comply with the debt collection guideline.

The legislative requirements governing recovery of overdue rates and charges are highly technical. Council staff need clear and comprehensive policies and procedures to guide their debt collection activities. Even when councils outsource aspects of their debt collection processes to external debt collection agencies or legal firms, they still need to understand the requirements and their legal obligations, including:

- when it is appropriate to allow a ratepayer to enter into a payment arrangement and how to manage that arrangement
- how and when to use the power to obtain a court judgement for the payment of overdue rates and charges
- how to enforce court judgements and how those proceedings interact with other recovery options under the Act and Regulations
- how and when to use the power to acquire land
- how and when to use the power to sell land
- the pre-conditions for the sale of land, how to give a valid and enforceable notice of intention to sell, timeframes for the commencement of the sale of land
- how to comply with Queensland's Privacy Principles
- how to comply with the *Debt Collection Guideline: for collectors and creditors*.

Hardship applications

Section 120 of the Regulation allows councils to grant a concession on rates and charges only if it is satisfied, among other reasons, that payment of the rates or charges will cause hardship to the land owner.

None of the five councils we audited had a general hardship policy or application form for this, even though they are required to consider formal applications for rates concessions on hardship grounds. It is difficult for ratepayers to successfully apply for hardship concessions if they do not know what criteria councils will consider and what information they need to provide to support their applications.

One council's annual revenue statement goes some way to assisting ratepayers. It says that:

> Council may, at its discretion, allow other concessions or remissions if it is of the opinion that some unusual and serious circumstances exist which may prevent payment within the appointed time or otherwise delay the payment of rates and charges as they fall due. Applications for concession or remission should be able to demonstrate unusual and severe difficulty rather than the usual frustration and trial to which everyone is subjected from time to time.

Rate recovery activities

As shown in Figure 4A, councils have legislative and other tools they may use to recover overdue rates and charges.

Figure 4A
Overdue rates and charges tools

Tools	Process
Interest	Section 133 of the Regulation allows councils to charge interest of up to 11 per cent per annum, calculated: • daily and as compound interest, or • in another way the council decides, if it will obtain an equal or lower amount.
Reminder letters	Councils' main method of collecting overdue rates is by using reminder letters, often escalating in severity of consequence.
Payment arrangements	Most councils let ratepayers pay overdue rates and charges by instalments under formal or informal payment arrangements (usually regular direct deposits).
Court judgements	Section 134 allows councils to recover overdue rates and charges by bringing court proceedings for a debt against a person who is liable to pay the overdue rates and charges. The Uniform Civil Procedure Rules 1999 govern these court proceedings and enforcement of judgements. Enforcement options include selling the land or any other land or personal property owned by the ratepayer, or garnishing wages or other income.
Sale of land	Sections 138, 139, and 140 allow councils to sell land for overdue rates and charges if some, or all, of the overdue rates or charges have been overdue for at least: • generally—after three years, or • if the land is vacant or only used for commercial purposes and the council has obtained a judgement for the overdue rates and charges—after one year, or • if the rates or charges were levied on a mining lease—after three months. Sections 140 to 147 outline specific procedures councils must follow when selling land in these circumstances.
Acquisition of land	Section 148 allows councils to acquire land for overdue rates and charges in certain prescribed circumstances. Sections 149 to 152 outline specific procedures councils must follow when selling land in these circumstances.

Source: Queensland Audit Office.

Our review of a selection of recovery activities for overdue rates and charges taken by the five councils highlighted some of the challenges councils face when:

- the owner of the land is deceased, or their location is unknown
- the value of the land is so low the proceeds of sale do not cover the amount of the overdue rates and charges and costs associated with the sale process.

Councils may need other legislative tools to overcome these challenges.

We also found that there are opportunities to improve how the councils use the available tools, and a need for staff training and quality assurance.

Using available tools

Ratepayers may incur disproportionately large debt triggered by long-running collection processes. The councils we audited had different capacity, appetite, or freedom to use debt collection techniques or legal proceedings as a means of recovering overdue rates and charges.

Some of the five councils do not contact ratepayers by telephone until late in the recovery process, if at all. Earlier contact with ratepayers could encourage them to enter into payment plans, which would reduce the interest charges and avoid the cost of legal proceedings.

The process of selling land for overdue rates and charges (for most ratepayers) can only start after three years (or one year for commercial properties where judgement is obtained first). This means that in some cases, interest charges can exceed the cost of taking court action at an earlier stage. This raises questions of fairness and equity for ratepayers.

Case study 2 illustrates the difficulty councils in remote and regional Queensland face in pursuing overdue rates and charges in circumstances where the registered owner of the land suffers financial hardship. The council used internal and external legal resources over nearly four years to recover the debt, at the same time increasing the ratepayer's debt through growing interest charges. The council advised that it does not have access to a bailiff. The council's inability to enforce the payment plan compounded the cost to both council and ratepayer.

Case study 2

Financial hardship

The registered owner of the land stopped paying rates in 2013. The council tried to help the owner pay the overdue rates and charges by proposing a payment arrangement but was unsuccessful.

During 2014 and 2015 the council's lawyers wrote to the owner trying to recover the overdue amount. In 2016, the council resolved to sell the land, at which time the owner started paying $50 per week toward the overdue rates and charges, which by then were more than $6 000.

In early 2017, the owner's representative proposed a new payment arrangement including some lump sum payments but advised that the owner could not pay more than $50 per week to clear the balance of the debt. Those lump sum payments were not made. In late 2017, council started the sale of land process.

The debt accrued interest of $1 756.51 from April 2013 until December 2017, when the mortgagee paid the total amount owing of $8 279.15.

Source: Queensland Audit Office.

Case study 3 shows the practical issues councils face when the registered owner of the land has died or cannot be contacted. For nearly four years, the council sent rate notices and reminder letters addressed to the deceased person at the address of the vacant land, even though the post office was unable to deliver them. Once the debt was more than three years old, council was able to start the process to sell the land, but it did not fully recover the amount owed.

Case study 3

Sale of land process—vacant land
The registered owner of the vacant land died in 1999. Until 2012, another person paid the rates. That person stopped paying rates in 2012 and advised council that no one was administering the owner's estate and he did not leave a will. From 2012 until 2016, the council continued to send rate notices and reminder letters to the address of the vacant land in the name of the estate of the former registered owner. The overdue rates and charges increased over that time from $346 to $3 515 including interest. Council sold the land at the end of 2016 for $7 050, and after deducting the costs of the sale, there was a shortfall of $1 915 owing to council.

Source: Queensland Audit Office.

Training and quality assurance

The activities we audited showed that councils do not always keep adequate records of key decisions and the exercise of delegations. We also found one example of a council selling vacant land before it was legally entitled to.

As debt collection is governed by a range of complex legislation and guidelines, best practice requires relevant staff be trained to make sure they are aware of all their obligations. The councils we audited had no formal quality assurance or review processes to ensure their debt recovery activities comply with policy and legislation.

While many councils use external debt collection agencies or legal firms for advice and recovery action, they still need to understand the legal requirements and make sure that they are working within the bounds of the legislation.

Appendices

A. Responses from entities

As mandated in Section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to:

- The Department of Local Government, Racing and Multicultural Affairs
- All 77 Queensland councils.

The heads of these agencies are responsible for the accuracy, fairness and balance of their comments.

This appendix contains the Department of Local Government, Racing and Multicultural Affairs' response to our audit recommendations. It also contains a fair summary of the 19 responses we received from councils. The following councils provided a response to the audit recommendations and/or comments on the report:

- Brisbane City Council
- Bulloo Shire Council
- Bundaberg Regional Council
- Burdekin Shire Council
- Cairns Regional Council
- Central Highlands Regional Council
- Council of the City of Gold Coast
- Goondiwindi Regional Council
- Ipswich City Council
- Isaac Regional Council
- Logan City Council
- Murweh Shire Council
- Noosa Shire Council
- Paroo Shire Council
- Redland City Council
- Somerset Regional Council
- Southern Downs Regional Council
- Sunshine Coast Regional Council
- Torres Strait Island Regional Council.

Comments received from the Director-General, Department of Local Government, Racing and Multicultural Affairs

Queensland Government

Department of Local Government, Racing and Multicultural Affairs

Our ref: DGC18/532

Your ref: 2017-9165P

18 JUN 2018

Mr Brendan Worrall
Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Worrall

Further to my letter of 30 May 2018 about the performance audit on managing local government rates and charges, and to provide comment on the proposed report to Parliament, I would like to reiterate that the Department of Local Government, Racing and Multicultural Affairs supports the recommendations in the proposed report, and believes the implementation of the recommendations will assist local governments to better link rating decisions to overall financial sustainability considerations.

Please find enclosed the Department's revised response to the recommendations that relate to the Department. The Department's response has been revised to reflect further officer level discussions, whereby the Department believes it can provide assistance to Councils to better understand Chapter 4, part 12 of the Local Government Regulation 2012.

If you require further information, I encourage you to contact Ms Bronwyn Blagoev, Executive Director, Strategy and Governance in the Department on or by email at

Yours sincerely

Warwick Agnew
Director-General

Enc

1 William Street Brisbane
PO Box 15009 City East
Queensland 4002 Australia
Telephone +617 3452 7009
ABN 251 66 523 889

Responses to recommendations

Response from the Department of Local Government, Racing and Multicultural Affairs

Managing local government rates and charges

Recommendation	Agree/ Disagree	Timeframe for implementation (Quarter and year)	Additional comments
We recommend that the Department of Local Government, Racing and Multicultural Affairs: 1. amends the Local Government Regulation 2012* to:			
• require councils to include in their revenue policies a long-term rates strategy (Chapter 2)	Supported, subject to further consultation with the local government sector	Consultation, quarter 1, 2018-19 financial year	Any amendments to the Regulation would be subject to the Government's endorsement and the legislative program will dictate the relevant timing.
• require councils to include in their revenue statements how annual decisions on rates and charges support financial sustainability (Chapter 3)	Supported, subject to further consultation with the local government sector	Consultation, quarter 1, 2018-19 financial year	
• require a council's chief executive officer to certify to the mayor (in a prescribed form) that the council's final adopted budget complies with all legislative requirements (Chapter 4)	Supported, subject to further consultation with the local government sector	Consultation, quarter 1, 2018-19 financial year	
2. continues to develop best practice tools and templates for councils on the budget and rates provisions of the *Local Government Act 2009** and the Local Government Regulation 2012* (Chapter 4)	Agree	Ongoing commencing quarter 1, 2018-19	This recommendation will be included in the department's capacity building program for 2018-19 and relevant future years. The exact nature of those tools and templates and future training will be determined by the Department, in consultation with relevant stakeholders.
3. develops resources and tools for councils on:			
• best practice community engagement	Agree	Ongoing commencing quarter 1, 2018-	This recommendation will be included in the department's work program

approaches to strengthen community understanding of, and input into, the rates decisions required to ensure continuation of services (Chapter 3)		19	for 2018-19. The exact nature of this work will be determined in consultation with relevant stakeholders.
• the budget documents and overdue rates and charges provisions of the *Local Government Act 2009** and the Local Government Regulation 2012* (Chapter 4)	Agree	Ongoing commencing quarter 1, 2018-19	This recommendation will be included in the department's work program for 2018-19. The exact nature of this work will be determined in consultation with relevant stakeholders.
• Chapter 4 part 12 of the Local Government Regulation 2012* (Chapter 4).	Agree	Ongoing commencing quarter 1, 2018-19	This recommendation will be included in the department's work program for 2018-19. The exact nature of this work will be determined in consultation with relevant stakeholders.

*All recommendations about the *Local Government Act 2009* and *the Local Government Regulation 2012* apply to the equivalent provisions in the *City of Brisbane Act 2010* and the City of Brisbane Regulation 2012 as relevant.

Summary of councils' responses

Managing local government rates and charges

Summary of comments provided in covering letters/emails on the report content

Council	Comment
Brisbane City Council	It is disappointing to note that within the latest report, the QAO is advocating the use of the existing financial sustainability ratios with common targets for all councils to achieve financial sustainability. It is suggested the QAO's recommendations (in Report 2: 2016–17 *Forecasting long-term sustainability of local government)* be implemented prior to any further prescription of financial sustainability planning. Of particular importance and priority is the recommendation to allow councils to set their own financial sustainability targets where the alternative can be justified as more appropriate for demonstrating long-term sustainability. Council does not support over regulation of local government. The proposal for regulatory requirement for councils to publish a long-term rates strategy needs to be more precisely clarified. The recommendation to legislate for councils to publish long-term rates strategies has potential to mandate detailed long-term price paths so individual ratepayers can predict how their rates may change in the longer term. This level of granularity in financial forecasting is unrealistic. Existing regulatory disclosure requirements are sufficient. As part of council's annual plan and budget, it adopts and publishes the following: • medium-term (three year) comprehensive income, financial position and cash flow statements • 10-year financial forecasts • a range of financial performance measures, ratios and targets including the prescribed financial sustainability ratios • investment, debt and revenue policies • comprehensive annual plan which quantifies and describes program outcomes at service level and financial allocations to individual projects and core operations.

Summary of comments provided in covering letters/emails on the report content

Council	Comment
Burdekin Shire Council	The report comments on the lack of community engagement undertaken by councils associated with the development of budgets and the setting of rates. There is no specific legislative requirement for this to occur at present and it is therefore not surprising that there was limited evidence of this being undertaken by councils. If a community engagement requirement was introduced, it would need to be clear what the purpose of the engagement is—either to inform the community of the proposals contained in the draft budget or provide the opportunity for some degree of input into the development of the budget. If the intent is the latter, then this will bring forward the time to develop the draft budget quite considerably from the current process and increase the resources required to prepare it. The report refers to a rates strategy which is linked to the long-term sustainability of the council. While no objection is offered to this proposal, the amount of detail required should be kept at a broad level. Some form of legislative protection may be needed if there are any inconsistencies between the strategy and the actual rates set by councils. This is to address the possibility that these provisions may broaden the scope for legal challenge to be made against decisions made by councils to set rates and charges. Another factor that needs to be considered in setting a long-term rating strategy is the potential changes that may occur through the electoral cycle with councils elected for four-year terms. A new council may wish to take a different approach to its revenue and expenditure priorities from the previous council and this may have a significant impact on the long-term financial forecast and the rating strategy that supports it.
Southern Downs Regional Council	There are some really good points made in the report and I support all the recommendations. There is one component that has not been picked up by the report, namely the political component. Newly elected councils usually implement a higher level of rates in the first two years of their electoral term. This is usually followed by a lessening of rates in the third and fourth years. Low rates in the last year of a local government authority are not uncommon when incumbent councillors seek to be re-elected and then the cycle begins again. The rates are not considered financially, they are considered politically. This is no different to the other levels of government in relation to taxation. This type of environment is a challenge for officers seeking to ensure financial sustainability, especially when hard decisions are required in the later years. Audit and Risk Management Committees can assist local government authorities in developing rating strategies and undertake sustainable financial planning. There perhaps needs to be greater intervention by the Department or QAO before local government authorities get into financial difficulty. Queensland Treasury Corporation's (QTC) strategic credit risk review determines the capacity of councils to commit to borrowings. QTC recommends this to the Department of Local Government, Racing and Multicultural Affairs (the Department), which then determines whether a local government authority is classified as financially unsustainable.

Source: Queensland Audit Office from information provided by councils.

Councils' responses to each recommendation						
Council	4	5	6	7	8	9
Brisbane City Council	Disagree	Agree	Agree	Agree	Agree	Agree
Bulloo Shire Council	Disagree	Agree	Agree	Disagree	Agree	Agree
Bundaberg Regional Council	Agree	Agree	Agree in principle	Agree	Agree	Agree
Burdekin Shire Council	Agree	Agree	–	Agree	Agree	Agree
Cairns Regional Council	Agree	Agree	Agree	Agree	Agree	Agree
Central Highlands Regional Council	Agree	Agree	Agree	Agree	Agree	Agree
Council of the City of the Gold Coast	Agree	Agree	Agree	Partially agree	Agree	Agree
Goondiwindi Regional Council	Agree	Agree	Disagree	Agree	Agree	Disagree
Ipswich City Council	Agree	Agree	Agree	Agree	Agree	Agree
Isaac Regional Council	Agree	Agree	Agree	Agree	Agree	Agree
Logan City Council	Agree	Agree	Agree	Agree	Agree	Agree
Murweh Shire Council	Agree	Agree	Agree	Agree	Agree	Agree
Noosa Shire Council	Agree	Agree	Agree	–	Agree	–
Paroo Shire Council	Agree	Agree	Agree	Agree	Agree	Agree
Redland City Council	Agree	Agree	Agree	Agree	Agree	Agree
Somerset Regional Council	Agree	Agree	Agree	Agree	Agree	Agree
Southern Downs Regional Council	Agree	Agree	Agree	Agree	Agree	Agree
Sunshine Coast Regional Council	Agree	Agree	Agree	Agree	Agree	Agree
Torres Strait Island Regional Council	Agree	Agree	Agree	Agree	Agree	Agree

Source: Queensland Audit Office from information provided by councils.

<table>
<tr><th>Recommendation</th><th>Summary of council comments on the recommendations</th></tr>
<tr><td>We recommend that the Department of Local Government, Racing and Multicultural Affairs:
1. amends the Local Government Regulation 2012* to:
• require councils to include in their revenue policies a long-term rates strategy (Chapter 2)
• require councils to include in their revenue statements how annual decisions on rates and charges support financial sustainability (Chapter 3)
• require a council's chief executive officer to certify to the mayor (in a prescribed form) that the council's final adopted budget complies with all legislative requirements (Chapter 4)</td><td>One council responded to this recommendation.
The council advises that it does not support over-regulation of local government and believes current regulatory requirements are sufficient.
It states:
• the level of detail provided in existing budget documents is appropriate
• existing requirements to align long-term financial plans with strategic asset management and infrastructure plans are sufficient to show the underlying assumptions for rates growth
• revenue at rating category level is only developed for the annual budget and it would be inappropriate to publish medium or long-term revenue projections for a 10-year period at a rating category level
• there is sufficient information currently available so that ratepayers can understand how total rates revenue is forecast to change over the next three years
• it does not support any legislative changes which mandates an annual justification of all rating categories
• it is preferable that the issue of non-compliance with regulatory requirements is addressed with education, training and awareness rather than prescriptive regulatory requirements.</td></tr>
<tr><td>2. continues to develop best practice tools and templates for councils on the budget and rates provisions of the Local Government Act 2009* and the Local Government Regulation 2012* (Chapter 4)</td><td>One council responded to this recommendation—it supports developing tools for councils to use voluntarily.</td></tr>
<tr><td>3. develops resources and tools for councils on:
• best practice community engagement approaches to strengthen community understanding of, and input into, the rates decisions required to ensure continuation of services (Chapter 3)
• the budget documents and overdue rates and charges provisions of the Local Government Act 2009* and the Local Government Regulation 2012* (Chapter 4)
• chapter 4 part 12 of the Local Government Regulation 2012* (Chapter 4).</td><td>One council responded to this recommendation—it supports developing tools for councils to use voluntarily.</td></tr>
</table>

<table>
<tr><th>Recommendation</th><th>Summary of council comments on the recommendations</th></tr>
<tr><td>We recommend that all Queensland councils:

4. document the actions they are taking to support their financial forecast that are required to achieve or maintain sustainability:
• the actions should be specific, measurable, achievable, realistic, and time-bound, and be allocated to responsible officers (Chapter 3)
• the document should have a long-term focus (10 years) and include the assumptions on which the forecast is based, the risks that may impact on achieving the forecast, and the factors driving the forecast (including links to strategic asset management plans) (Chapter 3)</td><td>The majority of the councils that agree with the recommendation indicated that they already do this or will start to do this.

Those councils that disagree both indicated that they have already documented the actions they are taking to achieve financial sustainability.

One council disagrees with the recommendation because it refers to achieving the financial sustainability ratio targets as currently specified in the former Department of Local Government, Racing and Multicultural Affairs': Financial Management Guide 2013 version 1.1. It does not support the recommendation to develop financial forecasts which are predicated on achieving compliance with the prescribed financial sustainability ratio targets.

It states:
• it is disappointing that the responsible department has not yet implemented this recommendation and the QAO approach remains to audit according to the requirements set out in the guide and the scope of the audit does not extend to forming an opinion on the appropriateness or relevance of the reported ratios
• the targets are not relevant or appropriate to guide council's sustainability and the current statutory metrics should not be referenced for determining an action plan for financial sustainability.

The other council suggests that councils should focus on a risk management approach to sustainability.</td></tr>
<tr><td>5. implement an appropriate costing model to gain a clear understanding of the full cost of delivering utilities and use this information to annually review pricing (Chapter 3)</td><td>The majority of the councils that agree with the recommendation indicated that they already do this or will start to do this.

One council notes that skilled analytics are expensive and time consuming. Small councils do not have access to development of costing models. There needs to be an understanding that while it is very useful to understand the full cost of delivery of utilities, capacity to pay will always be a factor in small, remote and regional councils.</td></tr>
<tr><td>6. implement appropriate community engagement approaches to strengthen community understanding of, and input into, the rates decisions required to ensure continuation of services (Chapter 3)</td><td>The majority of the councils that agree with the recommendation indicated that they already do this or will start to do this.

One council notes that decisions about specific rating matters prior to the adoption of the budget are kept confidential. This is appropriate and consistent with the Regulation which allows council meetings to be closed to the public to allow discussion of budget matters.

Another one advises that when it comes to appropriate approaches, we find communities often struggle with financial information, so it needs to be very simple so that everyone can understand. There is a cost to translating data and service levels into easily understood information. It requires:
• good financial systems to generate data
• good graphical and interactive software and tools to visualise these aspects.
The council that disagrees is concerned that it is difficult to determine what is appropriate community engagement for different communities and a one size fits all approach does not apply. The council also noted that in most communities the councillors communicate these pressures and decisions. It would be near impossible to consolidate the many inputs into a single message. Other levels of government don't do it.</td></tr>
</table>

Recommendation	Summary of council comments on the recommendations
7. publish a hardship policy to assist ratepayers to seek a concession for hardship as allowed by section 120(1)(c) of the Local Government Regulation 2012* (Chapter 4)	The majority of the councils that agree with the recommendation indicated that they already do this or will start to do this. One council notes that development of a hardship policy is complex and could lead to unforeseen consequences. To reduce the risk it suggests that the Department (and supporting agencies) prepare a model policy for councils to consider and customise for their local needs. The council that disagrees advises that hardship is considered on a case-by-case basis to ensure flexibility and a reduce the risk of setting a precedent. It noted that while a policy may be useful for applicants, council does not want to encourage more applications for hardship which may result from publishing such a policy.
8. ensure that all future budget documents and resolutions and rates and charges resolutions comply with all requirements in the *Local Government Act 2009** and the Local Government Regulation 2012*	The majority of the councils that agree with the recommendation indicated that they already do this or will start to do this. Some councils suggested that the state government do more to help councils. For example, one notes that it would be beneficial for the Department to form a working group to review the existing legislation, develop a model budget resolution and framework. As well as further development of the QTC long-term financial forecast, alignment of the Regulation with terminology required in annual financial statements and assisting councils to train staff.
9. train staff on all relevant requirements in the Local Government Regulation 2012*, and on better practice debt collection techniques (Chapter 4).	The majority of the councils that agree with the recommendation indicated that they already do this or will start to do this. One council suggests that the Department coordinate the development of a training program with support from key agencies. This would minimise the costs and resources required by the councils developing their own programs. The council that disagrees noted that not all councils handle this in house and training would not be necessary in those cases. The council also noted that food and consistent application of the tools within the Regulation across councils would make it easier for those who are actively managing their rate debts.

Source: Queensland Audit Office from information provided by councils.

B. Audit objectives and methods

Audit objective, scope, and criteria

The objective of the audit was to examine whether councils set and administer rates and charges appropriately to support long-term financial sustainability.

The audit addressed the primary objective through the following sub-objectives, lines of inquiry, and audit criteria.

Sub-objective 1: Councils' revenue policies and statements meet requirements			
	Lines of inquiry		Criteria
1.1	Revenue policies and statements comply with relevant requirements	1.1.1	Revenue policies and statements comply with the *Local Government Act 2009*, the Local Government Regulation 2012, and other requirements

Source: Queensland Audit Office.

Sub-objective 2: Councils have robust and transparent processes for setting rates and charges			
Lines of inquiry		**Criteria**	
2.1	Rates and charges are set using reliable assumptions and data and considering current and future community priorities	2.1.1	Councils' assumptions are clearly documented
		2.1.2	Councils use relevant and reliable data for analysis of rates and charges
		2.1.3	Councils set rates and charges with sufficient community engagement
2.2	Rates and charges are set using fit-for-purpose methods and frameworks	2.2.1	Councils use the Queensland Treasury Corporation's Local Government Forecasting Model, or a suitable alternative, for financial modelling
		2.2.2	Councils consider all options for raising revenue when developing annual budgets
		2.2.3	Councils' rates categories are fit for purpose and reviewed regularly
		2.2.4	Councils use fair and equitable methods for apportioning increases in rates and charges to differential rates categories
2.3	Rates and charges support long-term sustainability	2.3.1	Councils set rates and charges at a level that supports long-term sustainability

Source: Queensland Audit Office.

Sub-objective 3: Councils effectively administer rates and charges according to legislation and better practice			
Lines of inquiry		**Criteria**	
3.1	Policies and procedures for collecting rates and charges meet requirements and are transparent	3.1.1	Policies and procedures comply with legislative and other requirements
		3.1.2	Policies and procedures are available to the public
3.2	Councils collect rates and charges in line with policies and procedures	3.2.1	Councils have advised and trained relevant staff about the policies and procedures
		3.2.2	Councils collect and recover any overdue rates and charges in line with policies and procedures
		3.2.3	Councils manage overdue rates and charges well.

Source: Queensland Audit Office.

Entities subject to this audit

The audit identified learnings and made recommendations that are relevant to the whole local government sector. To identify those learnings, we closely examined how five councils manage their rates and charges.

We selected one council from five of the Local Government Association of Queensland's segments:

- coastal
- resources
- rural/regional
- rural/remote
- South East Queensland.

We also reviewed the published budget documents, including revenue statements and policies, for all 60 non-Indigenous councils.

We excluded councils in the Indigenous segment from this audit because most of them do not charge general rates.

Audit approach

We conducted the audit in accordance with the Auditor-General of Queensland Auditing Standards—September 2012, which incorporate the requirements of standards issued by the Australian Auditing and Assurance Standards Board.

The audit included:

- analysing councils' budgets, financial planning, forecasting, and other relevant records
- interviews with relevant council staff
- considering submissions and other information from relevant stakeholders.

We provided each of the five councils with a detailed end of conduct brief outlining the findings specific to them. We also included a range of specific recommendations for them to consider. Where those recommendations have broader application, we have included them in this report.

C. Key definitions

Term	Meaning
Cost-recovery fee	A fee for: • an application for the issue or renewal of a licence, permit, registration, or other approval under the *Local Government Act* (an application fee) • recording a change of ownership of land • giving information kept under the *Local Government Act* • seizing property or animals under the *Local Government Act* • the performance of another responsibility imposed on the council under the *Building Act* or the *Plumbing and Drainage Act*.
Differential general rates	General rates that differ for different categories of rateable land.
Differential rates categories	Different categories of rateable land in the local government area. Each category must have a description and may have a differential general rate and/or minimum general rate.
General rates	For services, facilities, and activities that are supplied or undertaken for the benefit of the community in general (rather than a particular person). For example, general rates contribute to the cost of roads and library services that benefit the community in general.
Levy	Raising or collecting money by authority or force, in this context, by setting and collecting rates and charges.
Rates and charges	Charges that a council imposes on land; or for a service, facility, or activity that is supplied or undertaken by council or by someone on behalf of the council (for example, a garbage collection contractor). There are four types of rates and charges: general rates (including differential rates), special rates and charges, utility charges, and separate rates and charges.
Separate rates and charges	For any service, facility, or activity not covered by other rates and charges.

Special rates and charges	For services, facilities, and activities that have a special association with particular land because:
	• the land or its occupier
	  – specially benefits from the service, facility, or activity
	  – has or will have special access to the service, facility, or activity
	• the land is or will be used in a way that specially contributes to the need for the service, facility, or activity
	• the occupier of the land specially contributes to the need for the service, facility, or activity.

Utility charges	For a service, facility, or activity for any of the following utilities: waste management, gas, sewerage, or water.

Source: Queensland Audit Office.

D. Use of rates mechanisms in rates strategies

Mechanisms	Council A	Council B	Council C	Council D	Council E
Differential rates categories	• 48 differential rates categories. • Different levels of cents in the dollar rate for each category ranging from 0.0025 to 0.318208 cents in the dollar. • Applies rate increases at different levels across these categories. • Method for allocating properties to categories differs between categories. For example: – residential properties allocated based on their location – shopping centres allocated based on their size.	• 16 differential rates categories. • Different levels of cents in the dollar rate for each category ranging from 0.382768 to 4.175489 cents in the dollar. • Applies rate increases at the same level across these categories. • Method for allocating properties to categories differs between categories. For example: – residential properties are allocated based on valuation – commercial properties (shopping centres) are allocated based on location.	• 55 differential rates categories (but does not use all of them). • Different levels of cents in the dollar rate ranging from 0.5347 to 114.4092 cents in the dollar. • Applies rate increases at different levels across these categories. • Method for allocating properties to categories differs between categories. For example: – residential properties are allocated based on their valuation and whether they are owner occupied or not – rural properties are allocated based on their land use – mines are allocated based on the number of people they employ.	• 72 differential rates categories (but does not use all of them). • Different levels of rates in the dollar ranging from 0.5353 to 38.5227 cents in the dollar. • Applies rate increases at the same level across these categories. • Method for allocating properties to categories differs between categories. For example: – residential properties are allocated based on their size – commercial properties are allocated based on whether they are not for profit organisations or others – rural properties are allocated based on their land use.	• 39 differential rates categories (but does not use all of them). • Different levels of cents in the dollar rate ranging from 0.5396 to 1.5761 cents in the dollar. • Method for allocating properties to categories differs between categories. For example: – residential properties are allocated based on their size – rural properties are allocated based on their use.

Mechanisms	Council A	Council B	Council C	Council D	Council E
Minimum general rates	• 23.55 per cent of all rateable properties are on the minimum rate. • Across the 48 differential rates categories, the proportion of properties on the minimum rate varies (from nil to 83.33 per cent). • 23 per cent of all residential properties are on the minimum rate, while only 14 per cent of all shopping centres are on the minimum rate.	• 55.27 per cent of all rateable properties are on the minimum rate. • Across the 16 differential rates categories, the proportion of properties on the minimum rate varies (from nil to 96.83 per cent). • 58.10 per cent of all residential properties are on the minimum rate, while only 39.50 per cent of all shopping centres are on the minimum rate.	• 48.59 per cent of all rateable properties are on the minimum rate. • Across the used differential rates categories, the proportion of properties on the minimum rate varies (from 8.21 per cent to 100 per cent). • 52.05 per cent of all residential properties are on the minimum rate, while 28.27 per cent of all commercial properties (including shopping centres) are on the minimum rate.	• 59.72 per cent of all rateable properties are on the minimum rate. • Across the used differential rates categories, the proportion of properties on the minimum rate varies (from nil to 100 per cent). • 86.2 per cent of all residential properties are on the minimum rate, while 69.31 per cent of all commercial properties are on the minimum rate.	• 60.33 per cent of all rateable properties are on the minimum rate. • Across the used differential rates categories, the proportion of properties on the minimum rate varies (from nil to 100 per cent). • 87.30 per cent of all residential properties are on the minimum rate, and 75.00 per cent of commercial properties are on the minimum rate.
Use of valuation averages	• Calculates general rates using a three-year averaged value of the land.	• Calculates general rates using current value of the land, not by using an average of prior year valuations.	• Calculates general rates using current value of the land, not by using an average of prior year valuations.	• Calculates general rates using current value of the land, not by using an average of prior year valuations.	• Calculates general rates using current value of the land, not by using an average of prior year valuations.
Use of rate caps	• 20 properties are subject to a rates cap. • Two categories of residential properties are capped at a 20 per cent increase. • Three rural and commercial categories are capped at a 30 per cent increase.	• Does not use rate caps.	• Caps rate increases in residential and commercial/industrial categories at 30 per cent and increases in three other categories at 40 per cent.	• Does not use rate caps.	• Does not use rate caps.
Discounts and concessions	• 10 per cent discount on differential general rates, sewerage charges, and water charges for early payment. • Offers four types of concessions.	• Does not offer a discount for early payment of rates. • Offers four types of concessions.	• Offers a 10 per cent discount for early payment of rates (on general rates). • Offers four types of concessions.	• Offers a 10 per cent discount for early payment of rates (on general rates and utilities and two separate charges). • Offers five types of concessions.	• Does not offer a discount for early payment of rates. • Offers two types of concessions.

Source: Queensland Audit Office.

E. Jurisdictional summary

Mechanisms	VIC	NSW	WA	SA
Legislation	*Local Government Act 1989 Vic*	*Local Government Act 1993 NSW* Local Government (General) Regulation 2005 Independent Pricing and Regulatory Tribunal Act 1992	*Local Government Act 1995 WA* Local Government (Financial Management) Regulation 1996	*Local Government Act 1999 SA* Local Government (General) Regulations 2013
Use of differential general rates	A council may use differential rates if: • it uses the capital improved value system to value the land • it considers the differential rate will contribute to the equitable and efficient carrying out of its functions. A council may also use differential rates for certain types of land if it does not use the capital improved value system to value the land.	There are four categories of ordinary rates and rateable land—farmland, residential, mining, and business. A council may divide them into sub-categories based on set criteria.	A council may use differential rates according to zoning, land use, whether land is vacant, or any other characteristic or combination of characteristics (subject to regulation).	A council may levy rates using a general rate or a differential general rate. A council may limit the maximum increase on rateable land that is the owner's principal place of residence. A council may set differential rates according to the land's use, location (or both), or some other basis determined by council. A council must use the permissible differentiating factors in the regulation.

Mechanisms	VIC	NSW	WA	SA
Use of current or average valuation	A council may use one of three valuation systems to set rates: • site value—the value of the land only • net annual value—the current value of a property's net annual rent • capital improved value—the total market value of the land plus buildings and other improvements. There is no use of valuation averages.	A council sets its rates based on the 'land value' determined specifically for rates purposes by the valuer-general. There is no use of valuation averages.	A council may use one of two valuation methods to set rates: • unimproved value—where the land is used predominantly for rural purposes, mining, or petroleum interests. • gross rental value—for other land. There is no use of valuation averages but there are provisions for phasing in new valuations over three years when the new valuation is an increase on the previous year.	A council may use the capital value of land to set its rates. However, a council may use the annual value or site value of land in specified circumstances. There is no use of valuation averages.
Rate pegging/capping	The highest differential rate must be no more than four times the lowest differential rate in the municipal district. Each year, the Minister for Local Government sets a cap on the extent to which councils may increase their overall general income (from general rates, municipal charges, services, rates, and charges) from the previous year. If the cap is insufficient to fund services and infrastructure, a council can apply to the Essential Services Commission for an increase higher than the cap. The rate cap set for the 2017–18 financial year was 2.0 per cent.	The Minister for Local Government may specify the percentage by which councils' general income for a specified year (or up to seven years) may be varied (rate peg). The minister may also specify limits on specific councils. The minister has delegated this power to the Independent Pricing and Regulatory Tribunal New South Wales (IPART). IPART sets the annual rate peg using the Local Government Cost Index (LGCI). For the 2017–18 financial year, the rate peg was set at 1.5%. The rate peg applies to general income only for the financial year and not to individual properties. Councils can increase a category's rates higher or lower than the overall peg. A council can apply to IPART for a 'special rate variation' to pursue a higher increase in general revenue for one or more years.	A council must not, without the minister's approval, set a differential general rate that is more than twice the amount of the lowest differential general rate. Unless the minister otherwise approves, the amount shown in a council's annual budget as being the amount it is estimated will be yielded by the general rate is not to: • be more than 110% of the amount of the budget deficiency • be less than 90% of the amount of the budget deficiency.	A council must not, in relation to any financial year, seek to set fixed charges as a component of general rates at levels that will raise a combined amount from such charges that exceeds 50 per cent of all revenue raised by the council from general rates. A council may fix a maximum increase on a general rate for any rateable land that is a principal place of residence. The council may fix any condition it sees fit for a ratepayer to qualify for the maximum. While there are no restrictions on the amount a council may increase rates, a council must take into consideration the level of rates being imposed on sectors and businesses across other councils to ensure there is consistency and comparability.

Mechanisms	VIC	NSW	WA	SA
Use of minimum general rates	A council may declare a municipal charge to cover some of the administrative costs of the council. A council's total revenue from a municipal charge in a financial year must not exceed 20 per cent of the total of council's: • total revenue from a municipal charge, and • total revenue from general rates in that financial year.	A council may set a base amount (using set criteria) plus a cents in the dollar rate for each category or sub-category, or it may just use a cents in the dollar rate. If used, the base amount may only yield up to 50 per cent of the income from the category or sub-category. If a council only uses a cents in the dollar rate amount, it may specify a minimum amount (subject to set limits) for each category or sub-category. A council may apply to IPART for approval to increase minimum rate levels above the statutory limit.	A council may apply a minimum payment that is greater than the general rate may otherwise be on a parcel of rateable land. A minimum payment is to be a general minimum, but a lesser minimum may be imposed in respect of any portion of the district. A council must ensure the general minimum is imposed on not less than: • 50 per cent of the total number of separately rated properties in the district, or • 50 per cent of the number of properties in each category on which a minimum payment is imposed. A minimum payment is not to be imposed on more than the prescribed percentage (50 per cent) of: • the number of separately rated properties in the district, or • the number of properties in each category, unless the general minimum does not exceed the prescribed amount ($200).	A council's general rates may: • be based on the value of the land, or • have two components, one based on the value of the land and the other being a fixed charge. A fixed charge must apply equally to each parcel of rateable land with some exceptions. If a council does not set a fixed charge, it can (with some restrictions) do one or both of the following: • fix a minimum amount payable by way of rates or charges (which may vary according to factors prescribed by the regulations) • alter the amount that would otherwise be payable by way of rates in respect of land that falls within a range of values determined by the council. A council is restricted from having more than 35% of all rateable properties on the minimum for rates and separate rates.

Mechanisms	VIC	NSW	WA	SA
Use of discounts and concessions	A council may provide an incentive for early payment of rates and charges. A council may grant a rebate or concession in certain circumstances if it will benefit the whole community. A council may defer or waive all or some rates and charges for hardship reasons.	A council may discount the amount of a rate or charge paid prior to the due date. An eligible pensioner who is solely or jointly responsible for a rateable property may be eligible for a concession (subject to set limits). Specified public bodies are entitled to a 25 per cent rebate on ordinary rates. A council may defer or waive all or some rates and charges for hardship reasons for eligible pensioners and in other specific circumstances.	A council may (subject to regulation) grant a discount or other incentive to ratepayers for the early payment of any rate or service charge. A council may (subject to regulation) also grant a concession for or waive a rate or service charge.	A council may grant a rebate on rates for certain properties of up to 100 per cent on a rate or charge as the council sees fit. This includes pensioner and early payment rebates. A council may set a discretionary rebate of rates. The purpose of the rebate is to provide relief to a ratepayer if a council were to change the basis or structure of its rates or if there were rapid changes in valuations or anomalies in valuations.

Mechanisms	VIC	NSW	WA	SA
Requirements for transparency of rates strategy	When a council uses differential rates, it must disclose publicly: • the objectives of the differential rate and the criteria • the rate and amount of rates payable for each category and what proportion of the total rates and charges this represents. Also, before a council adopts its annual budget, it must give public notice to the community and make the proposed budget available for inspection for at least 28 days. The community may make a submission on the proposed budget.		Before imposing any differential general rates or a minimum payment applying to a differential rate category, a council must give local public notice of its intention to do so. The notice must be circulated through the newspaper and a noticeboard at the council's offices and libraries for 21 days to allow a ratepayer to make a submission. A council must consider any submissions before imposing the proposed rate or minimum payment.	A council must prepare a report and comply with its statutory public consultation policy before it changes: • the basis of the rates of any land (including by imposing differential rates on land that has not been differently rated in the preceding financial year, or by no longer imposing differential rates on land that has been differently rated in the preceding financial year) • the basis on which land is valued for the purposes of rates • the imposition of rates on land by declaring or imposing a separate rate, service rate, or service charge on any land. The report must address: • the reasons for the proposed change • the relationship of the proposed change to the council's overall rates structure and policies • in so far as may be reasonably practicable, the likely impact of the proposed change on ratepayers (using such assumptions, rate modelling, and levels of detail as the council thinks fit) • issues concerning equity within the community. The public consultation must include at least publication in a newspaper circulating within the area inviting interested persons to attend a public meeting and make written submissions within at least 21 days.

Source: Queensland Audit Office.

Auditor-General reports to parliament

Reports tabled in 2017–18

1.	Follow-up of Report 15: 2013–14 Environmental regulation of the resources and waste industries	September 2017
2.	Managing the mental health of Queensland Police employees	October 2017
3.	Rail and ports: 2016–17 results of financial audits	December 2017
4.	Integrated transport planning	December 2017
5.	Water: 2016–17 results of financial audits	December 2017
6.	Fraud risk management	February 2018
7.	Health: 2016–17 results of financial audits	February 2018
8.	Confidentiality and disclosure of government contracts	February 2018
9.	Energy: 2016–17 results of financial audits	February 2018
10.	Finalising unpaid fines	February 2018
11.	Queensland state government: 2016–17 results of financial audits	February 2018
12.	Investing for Success	March 2018
13.	Local government entities: 2016–17 results of financial audits	March 2018
14.	The National Disability Insurance Scheme	May 2018
15.	Education: 2016–17 results of financial audits	May 2018
16.	Follow-up of Managing water quality in Great Barrier Reef catchments	June 2018
17.	Managing local government rates and charges	June 2018

Audit and report cost

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Performance engagement

This audit has been performed in accordance with ASAE 3500 *Performance Engagements.*

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T: (07) 3149 6000
M: qao@qao.qld.gov.au
W: qao.qld.gov.au
53 Albert Street, Brisbane Qld 4000
PO Box 15396, City East Qld 4002

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