

Local Government Service Rates and Charges

Minister's Good Practice
Guidelines for their use

December 2023

Table of Contents

Minister’s Good Practice Guidelines for Service Rates and Charges	3
Purpose	3
Legislative Requirements	3
Determining whether to use a Service Rate or a Service Charge	4
Composition of a Service Rate or Charge	4
Calculating a Service Rate or Charge	5

Minister's Good Practice Guidelines for Service Rates and Charges

Purpose

These Good Practice Guidelines for Service Rates and Charges are made under Section 87 of the *Local Government Act 2020*. They set out what constitutes good practice by councils in the determination and declaration of Service Rates and Charges under Section 162 of the *Local Government Act 1989* and any other matters related to compliance and accountability by councils.

The objective of these Good Practice Guidelines is to ensure that Service Rates and Charges:

- are only used to recover the reasonable costs of providing a direct service to an occupancy;
- are calculated and declared in a fair and transparent manner; and
- subject to public engagement in accordance with a council's Community Engagement Policy

These Guidelines take effect from **1 March 2024**.

Legislative Requirements

From 20 June 2023 (with the commencement of the *Local Government Legislation Amendment (Rating and Other Matters) Act 2022*) Service Rates or Charges are no longer permitted to be charged for the provision of a water supply or sewage services.

The only specified reasons for councils to raise Service Rates and Charges are:

- Waste, recycling or resource recovery services¹; and
- Any other service prescribed in regulations.²

It is a requirement of the *Local Government (Planning and Reporting) Regulations 2020* that any declared Service Rates or Charges are described in the council's Annual Budget. Moreover, the *Local Government (General) Regulations 2015* requires details of declared Service Rate or Charge to be described on the rate notice.

¹ as defined by the *Circular Economy (Waste Reduction and Recycling) Act 2021*

² No additional services are currently prescribed.



Determining whether to use a Service Rate or a Service Charge

Councils have the option of declaring a charge or an *ad valorem* rate (or a combination of both) for waste, recycling or resource recovery service and other prescribed services.

In determining whether to declare a Service Rate or Charge, it is good practice for councils to:

- explain the use of either of these methods of raising revenue (or a combination of both) in the council's Revenue and Rating Plan;
- explain why a Service Charge is being used over a Service Rate and conversely, if a Service Rate is being used over a Service Charge;
- support and justify the explanation in accordance with the governance principles and supporting principles in the *Local Government Act 2020*; and,
- explain the decision in accordance with the good taxation principles in the *Local Government Better Practice Guide - Revenue and Rating Plans*, including equity, simplicity, sustainability and efficiency.

It is good practice for a council to undertake the above in accordance with its Community Engagement Policy.

The use of a Service Charge (as opposed to a Service Rate based on property value) for the purpose of waste, recycling or resource recovery services (commonly known as kerbside waste collection) is good practice as there is a clear nexus between the amount to be levied on an occupancy and the cost of the specific service being provided to the same occupancy. This allows for the composition and setting of the Service Charge to be easily explained and justified to the community.

It is not good practice for a council to apply a Service Rate for the purpose of waste, recycling or resource recovery services (commonly known as kerbside waste collection) as the amount levied on each assessment will be primarily determined by the value of the property – not the cost of the specific service rendered. Such a practice is difficult to justify to the community in accordance with the good taxation principles above as each assessment will be levied a different amount while all receiving an identical service.

Composition of a Service Rate or Charge

In the composition of a Service Rate or Charge, it is good practice for a council to:

- align the Service Rate or Charge with the specific and tangible service provided to the occupancy it is levied upon. For example, the kerbside collection of waste and/or recycling bins that are provided for the exclusive use of the occupancy. The Service Rate or Charge can also reflect the costs of the subsequent management of this waste, including transport, storage, processing and disposal and associated infrastructure, but is not required to cover the full cost of the service.

It is not good practice for a council to:

- Levy a Service Rate or Charge to fund services that do not provide a *direct* benefit to the occupancy subject to the Service Rate or Charge. The following are examples of services that provide a general benefit to the whole municipality and should be funded by the council through revenue sources other than a Service Rate or Charge:
 - litter and waste collection from public spaces and the provision of public bins;
 - street, footpath and drain cleaning;
 - graffiti removal;
 - municipal tree planting and maintenance;
 - general and/or municipal environmental activities such as park maintenance, public education and advocacy.

Calculating a Service Rate or Charge

When calculating the amount of a Service Rate or Service Charge, it is good practice for a council to:

- determine the direct and indirect costs of the service, deciding on an activity-based costing or pro-rata approach³ and form an appropriate pricing;
- focus on either a subsidised pricing or full-cost recovery pricing structure, including clear rationale in cases where councils subsidise particular users or services at the expense of others (or from other revenue sources);
- primarily make calculations based on their own service costs, published strategies and relevant community plans, although a council can take into account the service rate and charges of other councils.

It is not good practice for a council to:

- Declare a rate or charge amount that would collect an amount above the actual cost of providing the service and generating a surplus to subsidise activities unrelated to the direct service.

The Hon Melissa Horne

Minister for Local Government

³ See Local Government Better Practice Guide - Revenue and Rating Strategy