The Outcomes of Rate Capping

2025 Report

12 June 2025

Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

An appropriate citation for this paper is:

Essential Services Commission 2025, The Outcomes of Rate Capping: 2025 Report, 12 June

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Summary

Why we report on outcomes

Rate capping is a system that limits the amount Victorian councils can increase their average rates each year. The Minister for Local Government sets the rate cap, which applies to all councils.

The Essential Services Commission is required to report on the outcomes of the rate capping system every two years.[1] The aim of the report is to:

- provide an assessment of rate capping outcomes
- identify any trends that might be emerging across the local government sector
- identify any other impacts of the caps on the sector.

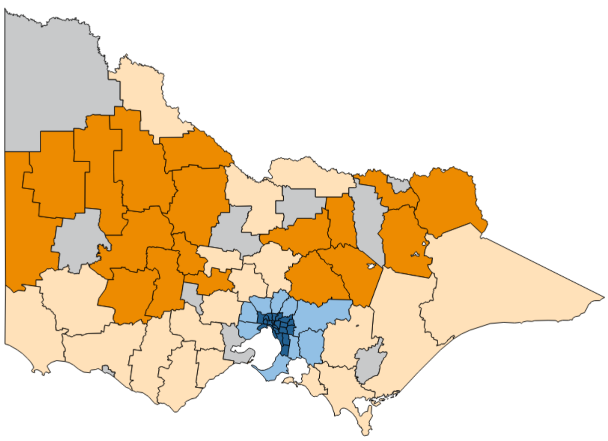
This report includes observations about the rates, revenue, expenditure, services and financial position of the local government sector as a whole. It also highlights differences between groups of similar councils.

Council groups

We refer to five groups of similar councils in this report:

- **Metropolitan**: councils in the Melbourne metropolitan area.
- **Interface**: councils on Melbourne's urban fringe, notable for high levels of population growth.
- **Regional city:** rural councils with large regional cities.
- **Large shire** and **small shire**: councils in rural Victoria, which are grouped by population level.

Figure 1 – Victorian council groups



See Appendix D for a list of the councils in each group.

[1] *Essential Services Commission Act 2001*, section 10E(3).

Rate capping outcomes reporting

The Outcomes of Rate Capping 2025 report provides updates to our 2023 report, covering new data for the 2022–23 and 2023–24 financial years. The report looks at historical trends, providing context for changes in the local government sector.

Most figures in this report are in 'real terms', meaning the figures are adjusted for inflation and expressed in 2023–24 dollars.

See our website for more information about individual councils, including an interactive dashboard and individual fact sheets.

What has changed since our 2023 report

Ratepayers have benefitted from low rate increases but waste charges have increased

Since our last report in 2023, councils have continued to comply with the rate cap. The rate cap was set at 1.75 per cent in 2022–23 and 3.50 per cent in 2023–24. All councils complied with these rate caps and no council applied for a higher cap during these years.

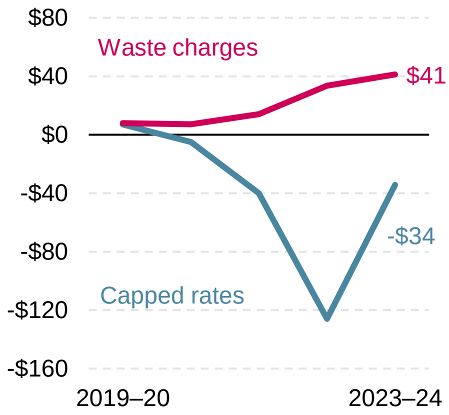
The high level of compliance with the rate cap has benefitted ratepayers by limiting how much they pay. However, property valuation outcomes mean individual rates notices may increase or decrease by different amounts to the rate cap.

Service rates and charges

Service rates and charges (which are not capped) increased at a faster rate than capped rates in 2022–23 and 2023–24, increasing by an annual average of 12 per cent.
These charges are used to recover the cost of waste and resource recovery services.

This reflects cost increases following disruptions in the waste market and loss of service providers, resulting in the implementation of the Victorian Government's circular economy policy to strengthen the municipal waste sector. However, we also note that the approach to cost recovery remains inconsistent and varied across the sector.[2]

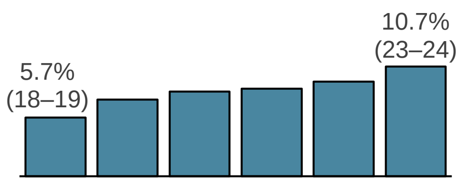
Figure 2 – Annual increase in rates and charges per property
Inflation adjusted (2023–24 dollars)



[2] The Minister for Local Government released guidelines on service rates and charges which took effect for the 2024–25 financial year, which is outside the scope of this report.

The value of outstanding rates debt has grown

Figure 3 – Outstanding rates ratio, 2018–19 to 2023–24



The proportion of outstanding rates as a percentage of total rates and charges has increased.

The increase suggests that more ratepayers may be experiencing financial hardship and highlights the importance of councils developing effective and proactive financial hardship policies and processes.

Revenue grew steadily but has not kept pace with the growth in expenditure

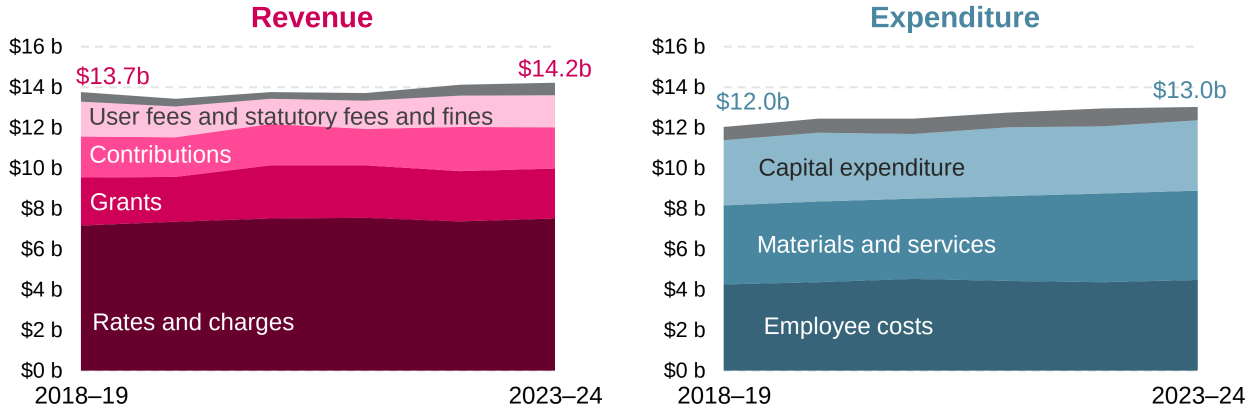
Over 2022–23 and 2023–24, revenue grew by an annual 1.9 per cent while expenditure grew by 1.1 per cent. However, expenditure has grown at a faster rate than revenue over the long term.

As rate increases have been set below actual inflation, rates and charges revenue decreased for the sector in 2022–23 before increasing slightly in 2023–24 once adjusted for inflation. However, it continues to be the most stable and reliable source of revenue for councils. The growth in the number of properties allows councils to increase their overall rates and charges income, even with the rate cap in place.

The growth in the sector's revenue from other sources has been mixed:

- Grant revenue fluctuated but is in line with the historical trend.
- Contributions was the fastest growing revenue source, providing an important source of revenue for councils experiencing high levels of population growth and property development.
- User fees and statutory fees and fines increased, following a sharp decline in 2019–20 and 2020–21 during the coronavirus pandemic. However, it has not yet returned to 2018–19 levels.

Figure 4 **Revenue and expenditure, 2018–19 to 2023–24**
Inflation adjusted (2023–24 dollars)

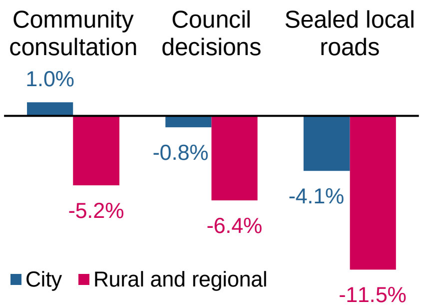


Expenditure continued to grow steadily, driven by increases in materials and services, and spending on capital works. The growth in employee costs was constrained, as many councils tie their employment agreements to the rate cap.

Spending on waste management was the fastest growing service area, reflecting changes in the waste market. Spending on aged and disabled services continued to experience the largest declines, as non-council organisations increasingly provide these services.

Community satisfaction has declined, particularly for rural and regional councils

Figure 5 – Percentage point change in satisfaction measures, 2020–21 to 2023–24



The local government performance reporting measures on service quality and community satisfaction have declined since 2020–21.

The decline is more notable for rural and regional councils (small and large shires, and regional cities) than city (metropolitan and interface) councils.

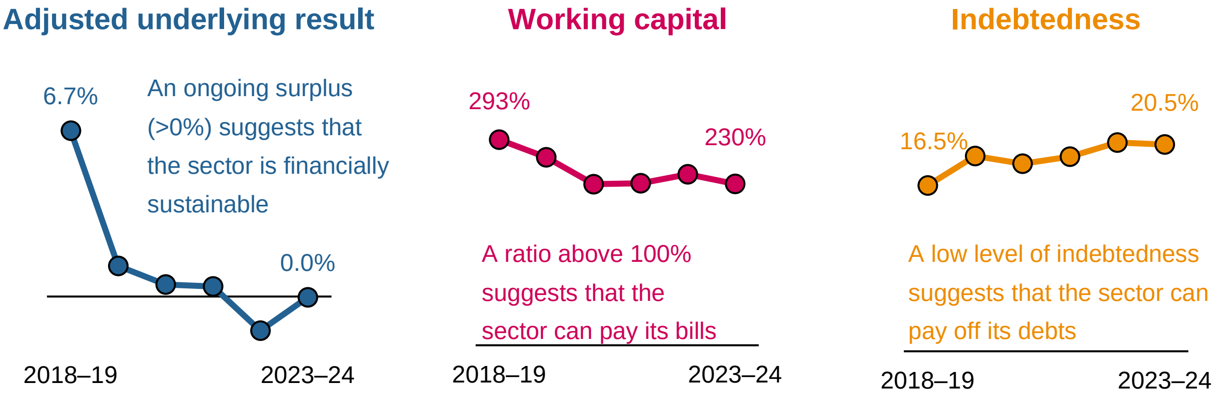
This suggests that some aspects of council service delivery may have deteriorated.

The sector's financial position is sound, however some councils face financial sustainability risks

Overall, the sector reported a tighter financial position than it had during the early years of rate capping. While most councils reported operating surpluses over the past 4 years, 43 councils reported adjusted underlying deficits (the adjusted underlying result removes one-off and non-recurrent revenue items). This means that around half of all councils are reliant on revenue sources that are outside their control.

However, low levels of debt and reasonable cash reserves suggest that these councils remain financially sound.

Figure 6 Key financial indicators for the sector as a whole, 2018–19 to 2023–24



A small number of councils reported both long-term adjusted underlying deficits and depleting cash reserves. Six councils with ongoing adjusted underlying deficits reported working capital ratios below 100 per cent in 2023–24. However, nearly all councils have low levels of debt, reflecting the sector's conservative approach to debt finance.

Councils facing long-term financial sustainability risks may need to consider whether existing service levels are appropriate, explore opportunities to operate more efficiently or increase revenue sources. One option councils have is to apply to us for a higher cap.

Applying for a higher cap

Councils can apply to us for a higher cap if the minister's cap is not sufficient to meet their needs. A council needs to show:

- The reasons a higher cap is needed.
- How the views of its community have been considered.
- How the higher cap is an efficient use of resources and represents value for money.
- Whether other funding options have been considered and why these are not appropriate.
- The assumptions and proposals in the application are consistent with the council's long-term planning and financial management.

See our website for further information about applying for a higher cap.

Key observations

Rates and charges

- Ratepayers have benefitted from low rate increases and high levels of compliance.
- Average rates for rural (farm) ratepayers increased more than for residential or commercial and industrial ratepayers, reflecting changes in property valuations.
- Service rates and charges have increased to fund rising expenditure on waste and resource recovery.
- Rates debtors are increasing, highlighting the importance of proactive and effective financial hardship policies.

Revenue

- Total revenue continued to grow.
- Growth in grant revenue remained steady, despite fluctuating in some years.
- Contributions was the fastest growing revenue category, driven by population growth in interface and regional city councils.
- User fees and statutory fees and fines has recovered, but not yet returned to pre-pandemic levels.

Expenditure

- The sector's total expenditure continued to trend upward, despite declining in per person terms in 2023–24.
- Operating expenditure: employee costs remained stable, after peaking in 2020–21. Spending on materials and services continued to increase.
- Capital expenditure increased and asset renewal remained on target.

Services

- Councils increased spending on waste services, while spending on aged and disabled services decreased.
- Service quality and satisfaction measures have trended downwards since 2019–20, but not for all groups. The metropolitan and interface groups have reported higher satisfaction ratings than the rural and regional council groups.

Financial position

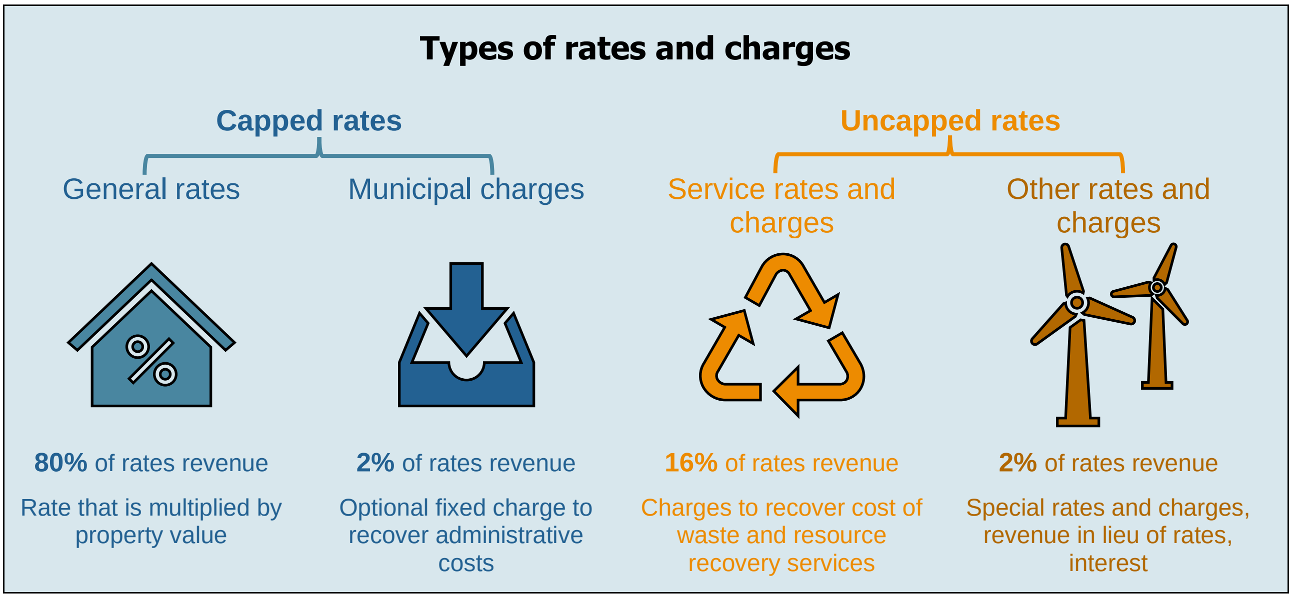
- **Operating position:** The sector's operating position has remained steady, with most councils in good financial health.
- **Working capital:** Nearly all councils had sufficient working capital. Six councils reported working capital ratios below 100 per cent in 2023–24, which is the highest number of councils with a ratio below 100 per cent since the introduction of rate capping.
- **Indebtedness:** Indebtedness increased slightly, driven by a rise in debt for the metropolitan council group. Overall, debt levels remained low.

Rates and charges

This chapter outlines our observations and findings on trends in council rates and charges, and what that means for different ratepayers.

Key observations

- Ratepayers have benefitted from low rate increases and high levels of compliance.
- Average rates for rural (farm) properties increased more than for residential or commercial and industrial properties, reflecting changes in property valuations.
- Service rates and charges have increased to fund rising expenditure on waste and resource recovery.
- Rates debtors are increasing, highlighting the importance of proactive and effective financial hardship policies.



Ratepayers have benefitted from low rate increases and a high level of compliance with the rate cap

Since rate capping was established in 2016–17, the Minister for Local Government has set the rate cap at or below the forecast inflation rate. Over the past four years, this ranged from 1.5 per cent to 3.5 per cent. All councils complied with these rate caps.

Depending on their financial needs, councils also have the option of applying for a higher cap above the minister's cap. However, no councils applied for a higher cap between 2020–21 and 2024–25.[3]

Table 1 Rate caps, compliance and higher caps between 2021–22 and 2024–25

Rating year	Minister's cap	Number of councils with a higher cap	Number of compliant councils
2021–22	1.50%	0 of 79	79 of 79
2022–23	1.75%	0 of 79	79 of 79
2023–24	3.50%	0 of 79	79 of 79
2024–25	2.75%	0 of 79	79 of 79

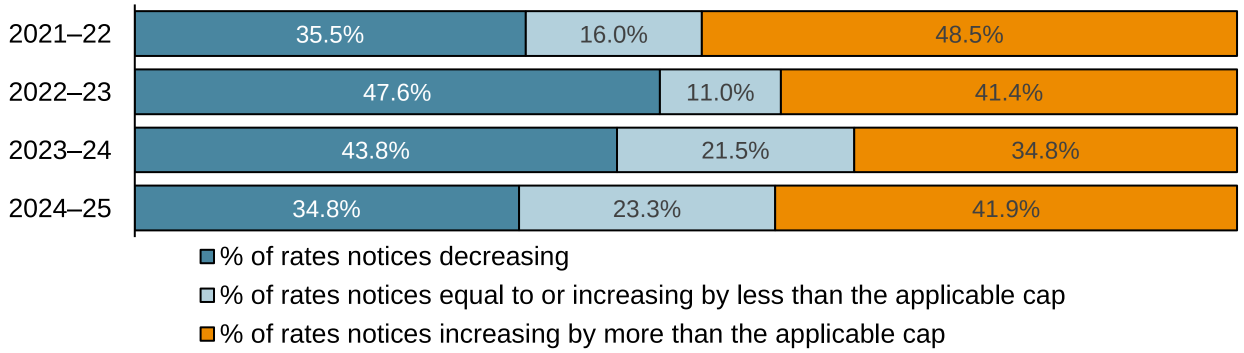
More than half of all ratepayers experienced rate increases below the rate cap

To help understand how rating outcomes can vary for individual ratepayers, we collect data on the distribution of rate increases in each council. Figure 7 shows the proportion of ratepayers that experienced rate decreases, increases that were below the rate cap, or increases above the rate cap between 2021–22 and 2024–25.

Taking an average of the four years:

- 40 per cent of rates notices decreased
- 18 per cent of rates notices increased by an amount less than the rate cap
- 42 per cent of rates notices increased by more than the rate cap.

Figure 7 Distribution of rate increases, 2021–22 to 2024–25



Data source: Essential Services Commission information request.

[3] The commission approved two higher cap applications for the 2025–26 financial year, which is outside the period for this report. See Appendix C for more information about higher caps.

Why individual rates notices can decrease or increase above the rate cap

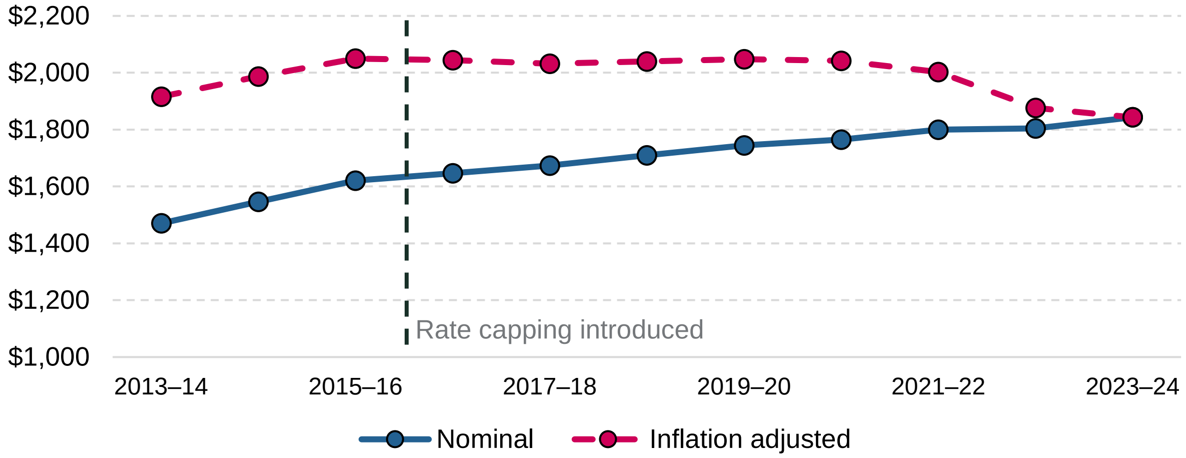
The rate cap does not apply to individual properties, but rather the average rate increase in each council. Individual ratepayers may experience changes in their rates from year-to-year due to factors outside the rate capping framework. These include but are not limited to:

- Changes in **property valuations:** Property values determine the proportion of general rates revenue paid by each ratepayer. Each year, every property is revalued, meaning the rates that apply to the property will change relative to other ratepayers.
- Changes in **differential rating strategy:** Councils can decide to change the proportion of rate revenue they collect from different classes of property. Any changes to the council's differential rating strategy will affect the amount ratepayers pay.

In real terms rates have declined, however outcomes vary for different classes of property

The amount of rates revenue per property that councils levy has fallen in real terms since 2020–21. Figure 8 shows how rate revenue per property has changed over the long term, comparing nominal dollars with real (inflation adjusted to 2023–24 dollars).

Figure 8 Revenue per property from capped rates in inflation adjusted (2023–24 dollars) and nominal values



Data sources: Council annual reports (audited); Victorian Local Government Grants Commission – VGC 2 (unaudited).

The fall in capped rates revenue per property is largely due to:

- Difference between inflation and the rate cap: in 2022–23, inflation was around 7 per cent while the rate cap was set at 1.75 per cent; in 2023–24, inflation was 4 per cent and the rate cap was 3.5 per cent.

- Revenue neutral introduction of services charges: councils introduced new service rates and charges to transfer the cost recovery of waste services from capped rates to uncapped service rates and charges. This included four councils in 2022–23 and three councils in 2023–24. These councils reduced capped rates revenue to offset the increase in service rates and charges revenue.

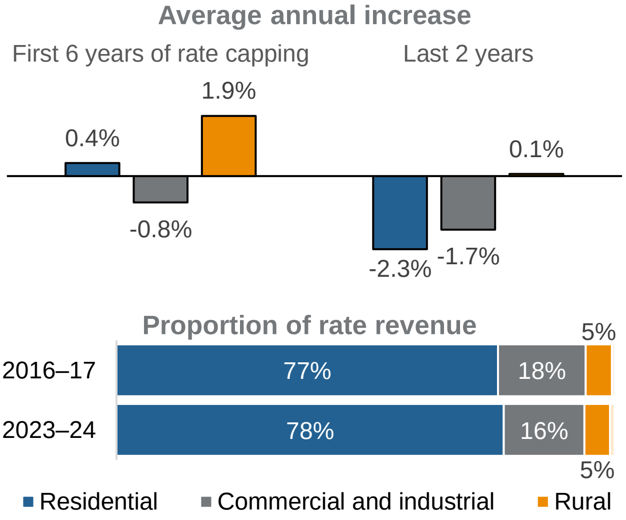
Rates for rural properties increased more than residential or commercial and industrial properties

Figure 9 compares rating outcomes for different classes of property. It shows changes in the average annual rate increase and the proportion of rate revenue.

Average rural rates increased, while rates for residential or commercial and industrial properties declined over the last 2 years.

This is largely driven by property revaluation outcomes and a consolidation in the number of rural properties. As rural properties rise in value relative to residential or commercial properties, their rates will increase.

Figure 9 – Average annual rate increase and proportion of rate revenue



Data source: Victorian Local Government Grants Commission.

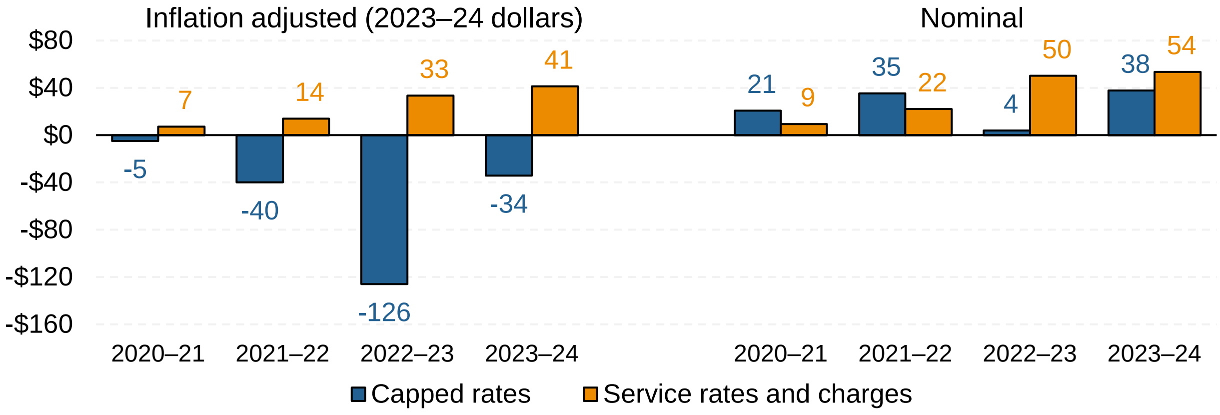
However, the proportion of revenue from each category has remained relatively stable since the introduction of rate capping, with residential increasing slightly and commercial and industrial decreasing.

Councils can choose to use differential rates to achieve equitable and efficient rating outcomes.

Service rates and charges have increased

Councils collect from ratepayers other rates and charges revenue that are not capped. This primarily includes service rates and charges, which can be used to recover the cost of waste and resource recovery services. Figure 10 shows the dollar increase in service rates and charges compared to capped rates.

Figure 10 **Dollar increase in capped rates and service rates and charges per property, 2019–20 to 2023–24**



Data sources: Council annual reports (audited); Victorian Local Government Grants Commission – VGC 2 (unaudited).

The sector's revenue from service rates and charges has increased due to:

- Councils' introduction of new service rates and charges to transition the cost recovery of waste services from capped rates to uncapped service rates and charges.
- China's ban on recycling imports and the loss of service providers disrupting the market and increasing recycling costs.
- The Victorian Government's introduction of the Circular Economy Policy to strengthen the municipal waste sector, including the rollout of a four-bin system and increases in the waste levy.

All councils use service rates or charges to recover waste management costs. However, the approach to cost recovery varies across the sector.

The Minister for Local Government released good practice guidelines on service rates and charges in 2024, to apply from the 2024–25 financial year. Some councils are considering whether their current service charges are appropriate and may need to apply for a higher cap to transition these costs into capped rates.[4] However, the impact of these guidelines is not yet captured by the data used in this report.

[4] In May 2025, we approved Indigo Shire Council's 2025–26 higher cap application to transition service charge revenue to capped rates.

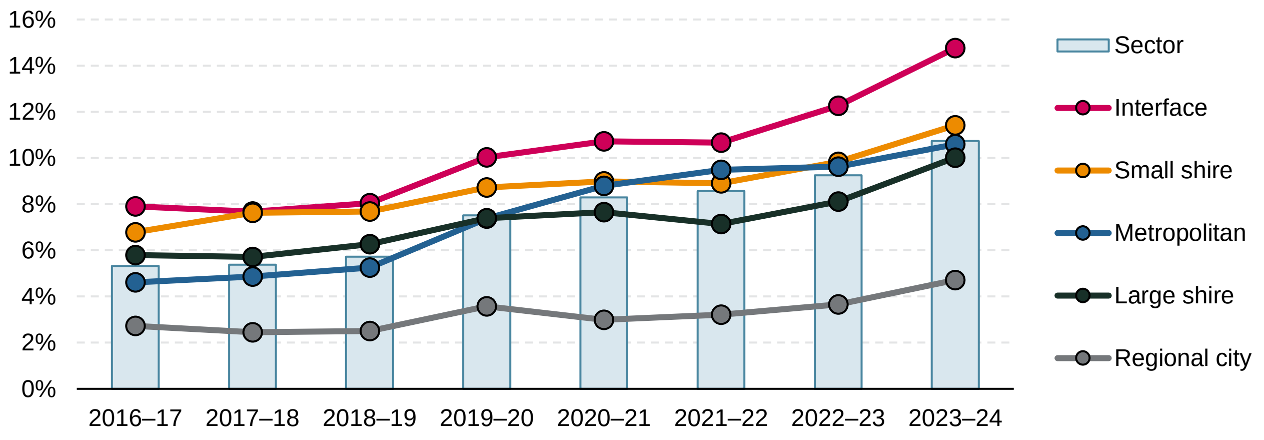
The amount of outstanding rates debt has grown

There has been an increase in the amount of outstanding rates debt in the sector. Figure 11 shows the increase in the rates and charges outstanding ratio, which is the total value of unpaid rates as a percentage of total rates and charges.

The ratio can provide insight into the effectiveness of councils' financial hardship policies. It may also be used as an indicator of liquidity risk for councils. However, while a high level of rate arrears may produce cash flow issues, rates are always recoverable as they are secured against the property.

The increase in outstanding rates debt highlights the importance of having well-functioning financial hardship policies and proactive practices in place. Councils have broad powers to implement practices that have been demonstrated to achieve good outcomes in other sectors. It is beneficial, not only for ratepayers experiencing financial hardship, but also for the financial health of councils.

Figure 11 Rates debtors as a percentage of rates and charges revenue, 2016–17 to 2023–24



Data source: Council annual reports (audited).

Revenue

This chapter outlines our observations and findings on councils' revenue sources. It focuses on grants, user fees and statutory fees and fines, and contributions. Our findings on rates and charges are covered in more detail in the rates chapter.

Key observations

- Total revenue continued to grow.
- Growth in grant revenue remained steady, despite fluctuating in some years.
- Contributions was the fastest growing revenue category, driven by population growth in interface and regional city councils.
- User fees and statutory fees and fines has recovered, but not yet returned to pre-pandemic levels.

Council revenue sources*

Rates and charges	User fees and statutory fees and fines	Grants	Contributions
52% of revenue	**11%** of revenue	**17%** of revenue	**15%** of revenue
Rates and charges collected from ratepayers	Revenue from fees for council services or fines (e.g. parking fines)	Grants from the Victorian Government or Australian Government	Contributions to councils to fund the construction of infrastructure

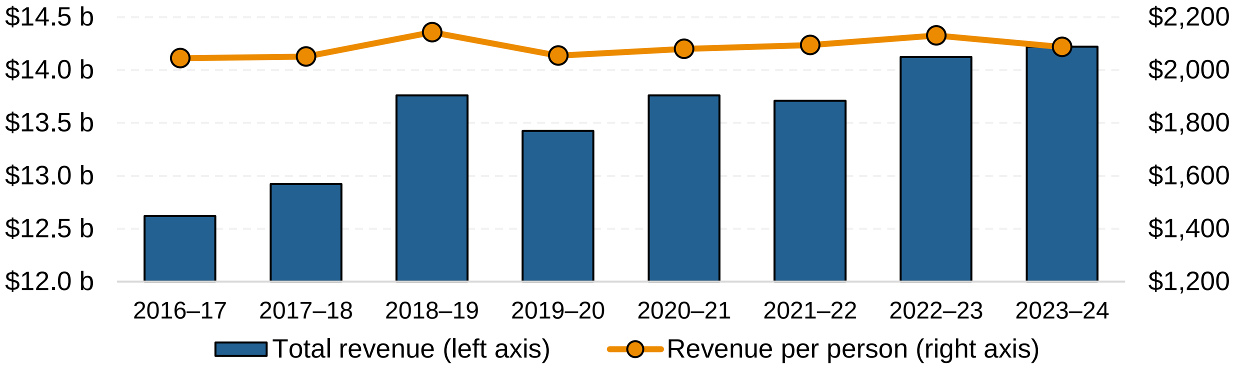
***Other income** accounts for 5 per cent of revenue.

Total revenue continued to grow

Total local government revenue grew by an average annual of 1.9 per cent in 2022–23 and 2023–24. This is slightly lower than the average annual increase over the first six years of rate capping (2.0 per cent).

Strong population growth resulted in total revenue per person declining in 2023–24. However, over the long term, revenue per person remains stable, despite fluctuating in some years.

Figure 12 **Total revenue and revenue per person, 2016–17 to 2023–24**
Inflation adjusted (2023–24 dollars)



Data sources: Council annual reports (audited); ABS Estimated Resident Population.

The increase in total revenue was driven by the growth in contributions. While rates and charges grew gradually, grants remained steady. In contrast, revenue from user fees and statutory fees and fines is low compared to historical levels.

Rates and charges revenue declined in 2022–23, before increasing in 2023–24

In 2022–23, rates and charges revenue declined in real terms for the first time since rate capping was introduced. This was primarily due to a large increase in inflation (7 per cent), which exceeded the rate cap (1.75 per cent).

Rates and charges revenue increased for all council groups in 2023–24.

Figure 13 – Rates and charges per cent of total revenue 2022–23 and 2023–24

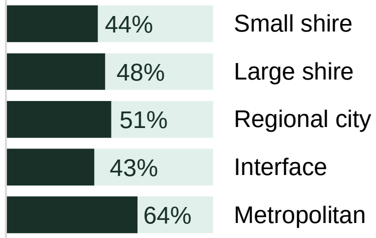
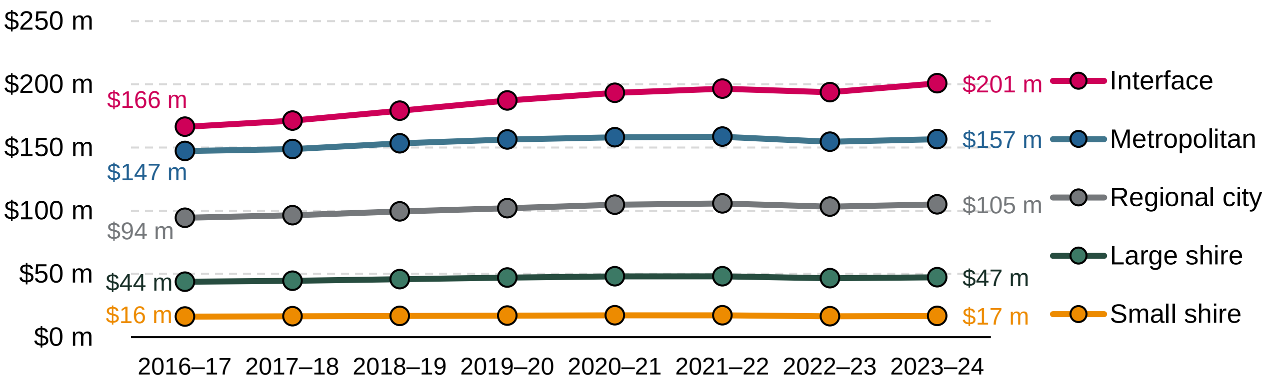


Figure 14 **Rates and charges revenue, council group average, 2016–17 to 2023–24**
Inflation adjusted (2023–24 dollars)



Data source: Council annual reports (audited).

The 2022–23 decline in rates and charges revenue was more notable for the metropolitan, interface and regional city council groups. However, these groups reported stronger growth in rates and charges revenue over the long term, while the large and small shire groups remained relatively stable.

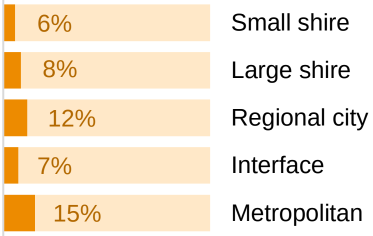
See the 'Rates and charges' chapter for more information.

User fees and statutory fees and fines revenue is recovering but has not yet returned to pre-pandemic levels

User fees and statutory fees and fines is the second largest source of own-source revenue for councils.

In real terms, the sector's revenue from user fees and statutory fees and fines increased by an annual average 6.4 per cent over the past two years. However, the total has not recovered to pre-pandemic levels.

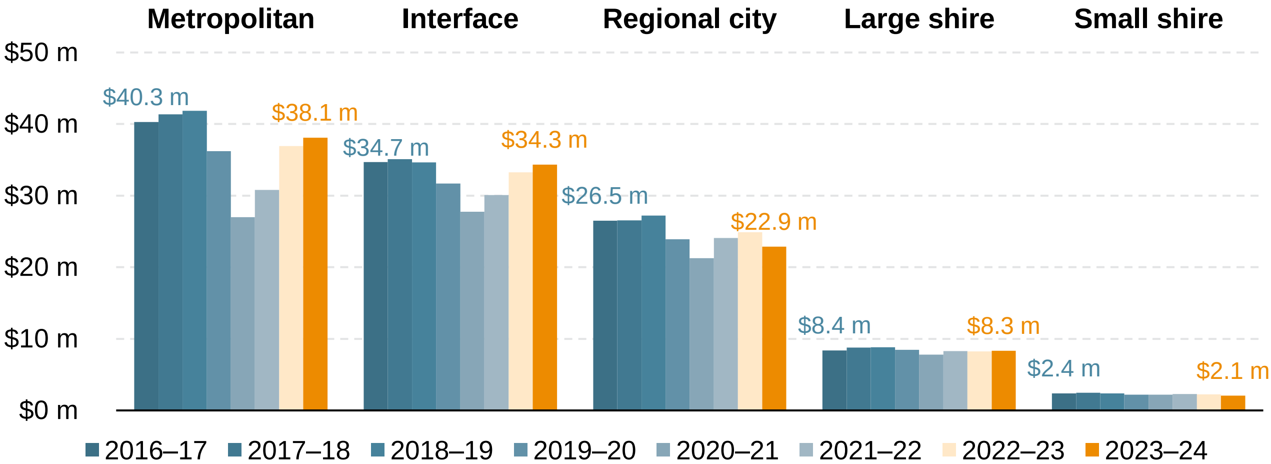
Figure 15 – Fees and fines per cent of total revenue
2022–23 and 2023–24



The increase follows large declines that occurred in 2019–20 and 2020–21, reflecting a reduction in services and closure of council facilities during the coronavirus pandemic. This had a larger impact on metropolitan, regional city and interface councils than on large and small shire councils.

Sustained changes in mobility and work-from-home arrangements may be affecting the demand for certain council services.

Figure 16 User fees and statutory fees and fines, council group average, 2016–17 to 2023–24
Inflation adjusted (2023–24 dollars)



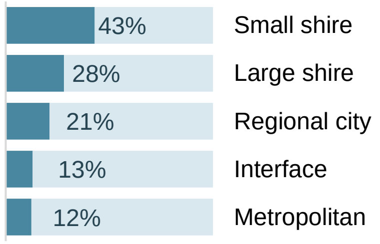
Data source: Council annual reports (audited).

Growth in grant revenue has remained steady, despite fluctuating in some years

Grants provide an important source of revenue to councils, particularly for rural and regional councils.

Revenue from grants for the sector fell by an annual average of 2.4 per cent between 2021–22 and 2023–24. This was driven by falls in grant revenue for the metropolitan (−8.6 per cent) and regional city groups (−3.1 per cent).

Figure 17 – Grants per cent of total revenue
2022–23 and 2023–24

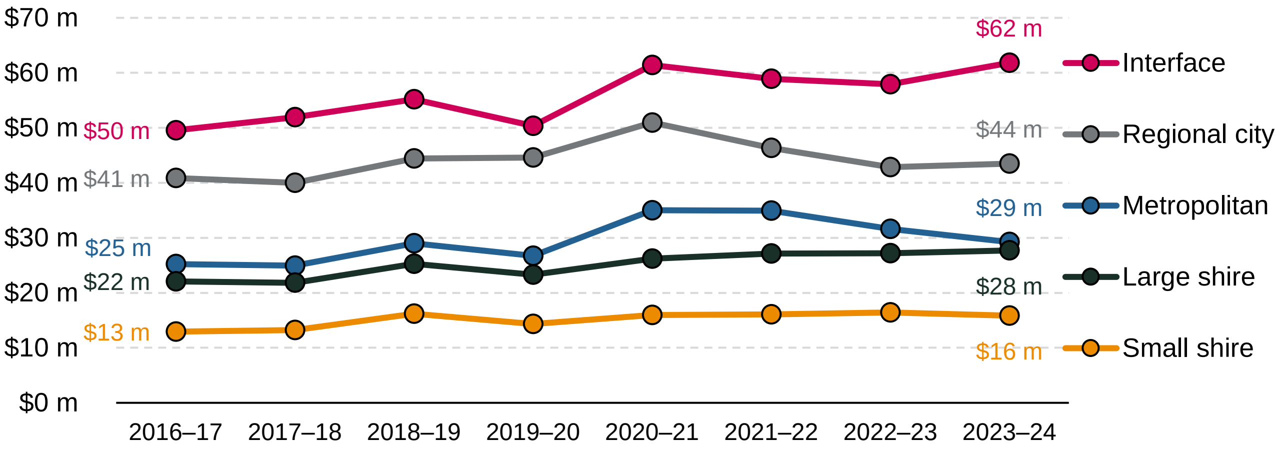


Revenue from grants for the interface (2.4 per cent) and large shire (1.1 per cent) groups increased over the same period, while the small shire group decreased slightly (−0.6 per cent).

The decline is partly explained as a return to the historical trend following increases in grant funding that occurred in 2020–21. All council groups reported a sharp increase in 2020–21, reflecting additional grant funding provided to councils to assist in the recovery from the coronavirus pandemic.

> **We have allocated the financial assistance grants to their intended year**
>
> The timing of the Australian Government's financial assistance grants, which accounts for around 30 per cent of all grant funding, has a large impact on reported grant revenue. We have allocated these grant payments to their intended years to improve understanding of how grant revenue is changing.
>
> See Appendix A for more information.

Figure 18 **Grant revenue, council group average, 2016–17 to 2023–24**
Inflation adjusted (2023–24 dollars)



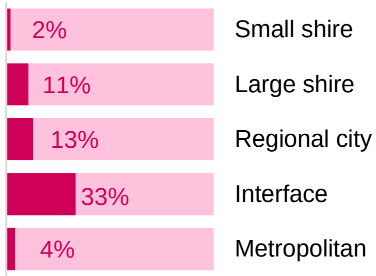
Data source: Council annual reports (audited).

Growth in contributions is driven by a small number of councils

Contributions are payments or 'works-in-kind' made to councils to support the construction of infrastructure in property developments.

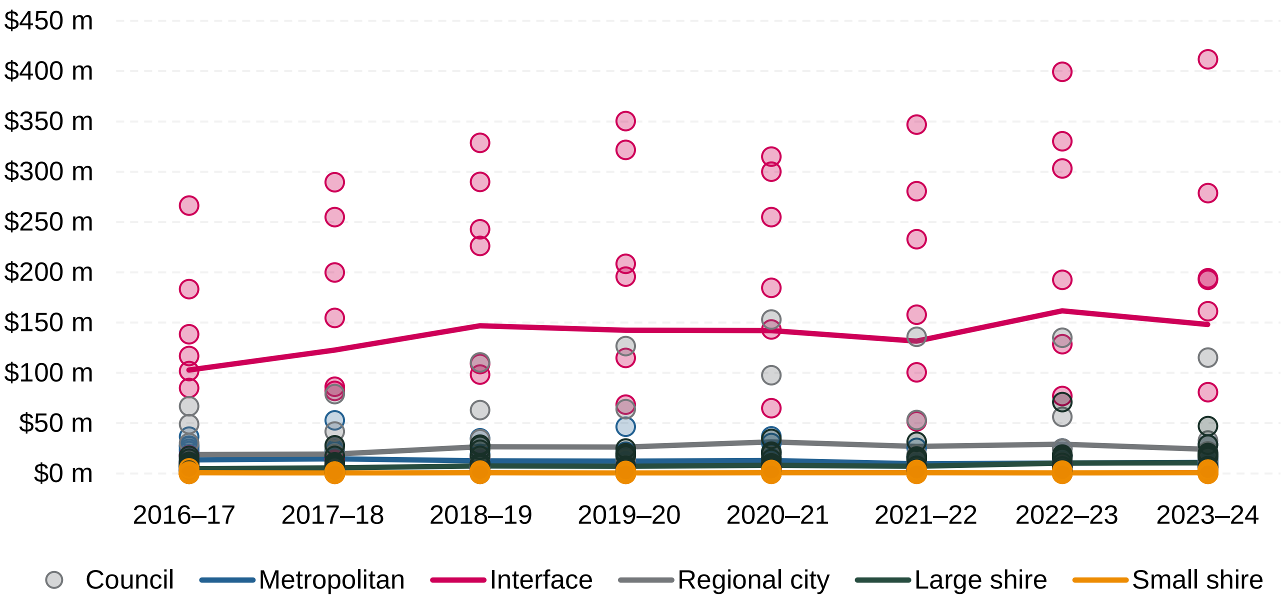
Revenue from contributions has driven increases in total revenue since rate capping was introduced. However, this has been concentrated in councils where most of Victoria's population growth and property development has occurred. These councils include interface councils, and to a lesser extent, also include some regional city and large shire councils.

Figure 19 – Contributions per cent of total revenue
2022–23 and 2023–24



Revenue from contributions for all groups except small shire has increased. However, the low reliance on contributions meant that changes in this revenue source had a small impact on small shire councils.

Figure 20 Revenue from contributions, councils and group average, 2016–17 to 2023–24
Inflation adjusted (2023–24 dollars)



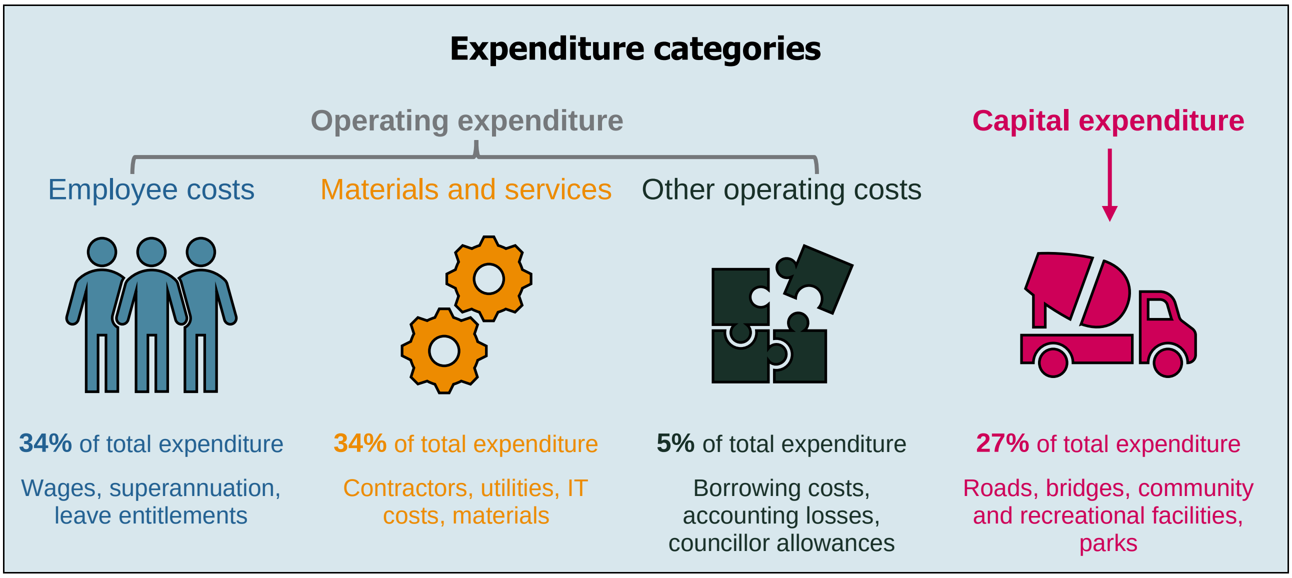
Data source: Council annual reports (audited).

Expenditure

This chapter outlines our observations and findings on councils' operating and capital expenditure.

Key observations

- The sector's total expenditure continued to trend upward, despite declining in per person terms in 2023–24.
- Operating expenditure: employee costs remained stable, after peaking in 2020–21. Spending on materials and services continued to increase.
- Capital expenditure increased and asset renewal remained on target.

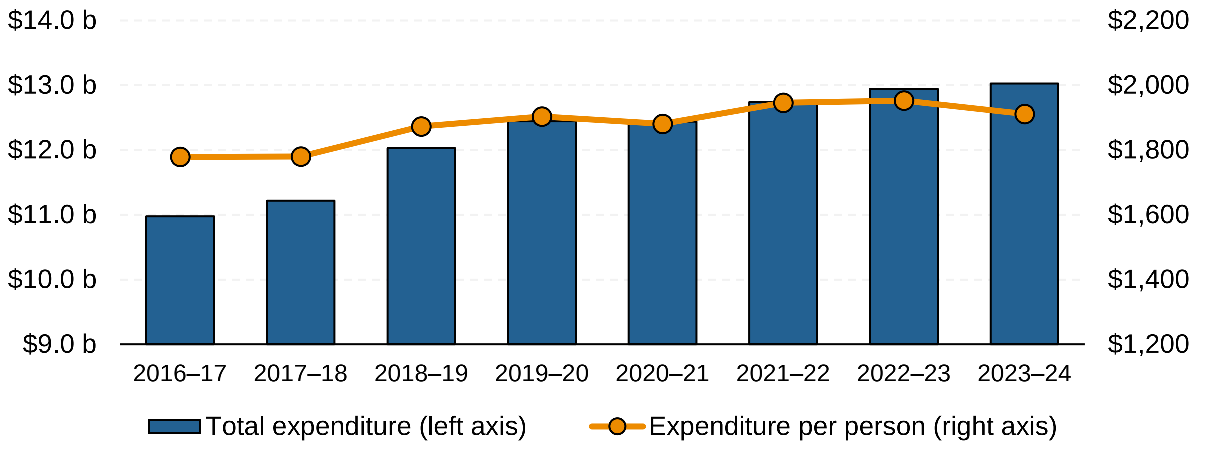


Total expenditure continued to increase

The local government sector's total expenditure continued to grow in 2022–23 and 2023–24, averaging a 1.1 per cent annual increase over the two years.

Similar to our findings in the revenue chapter, strong population growth resulted in a decline in expenditure per person in 2023–24. However, the trend remains positive.

Figure 21 **Total expenditure and expenditure per person, 2016–17 to 2023–24**
Inflation adjusted (2023–24 dollars)

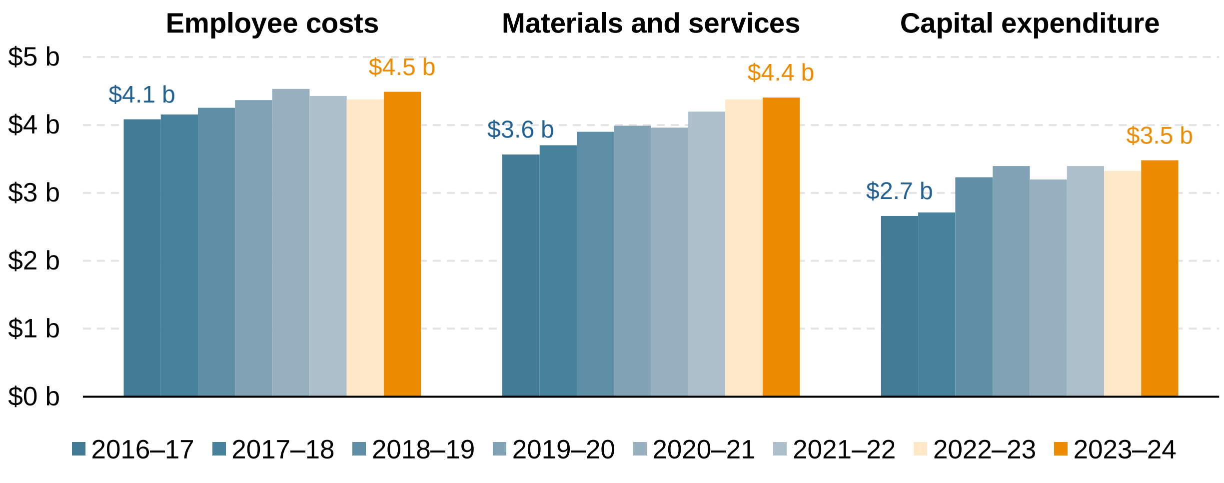


Data sources: Council annual reports (audited), ABS Estimated Resident Population.

Increase in expenditure was driven by materials and services, and capital expenditure

The increase in total expenditure was driven by changes in capital expenditure and materials and services (see Figure 22). In contrast, spending on employee costs decreased in 2021–22 and 2022–23, before increasing in 2023–24.

Figure 22 **Total expenditure categories, 2016–17 to 2023–24**
Inflation adjusted (2023–24 dollars)



Data source: Council annual reports (audited).

Employee costs

Employee costs was the largest spending category over the first six years of rate capping, accounting for 36 per cent of total expenditure. However, the growth in materials and services expenditure and decline in employee costs in 2022–23 means it is now at a similar level to materials and services (both contributing 34 per cent).

Employee costs peaked in 2020–21, as councils introduced coronavirus-related work programs. The peak is more noticeable for metropolitan councils, which were more affected by the coronavirus pandemic.

The subsequent decline over the next two years partly reflects council employment agreements. The wage increases set out in many councils' employment agreements are tied to the rate cap, which was set at lower levels than inflation in 2022–23 and 2023–24.

Materials and services

In contrast, materials and services decreased in 2020–21, before increasing over the next three years. Suspension of services due to coronavirus-related restrictions meant that councils purchased fewer materials and services.

The subsequent increase may have been influenced by supply chain disruptions and inflationary pressures, increasing costs. However, the annual growth between 2020–21 and 2023–24 (3.6 per cent) was in line with the pre-pandemic trend from 2016–17 to 2019–20 (3.8 per cent).

Capital expenditure

Capital expenditure varies more year-on-year than operating expenditure. Councils manage long-lived assets that only require investment intermittently.

Despite the year-on-year variation, spending on capital works has been increasing over time and now accounts for 27 per cent of total expenditure, up from 24 per cent of expenditure in 2016–17. More information about this trend is set out in the section below.

Capital expenditure has increased despite falls in spending on new assets

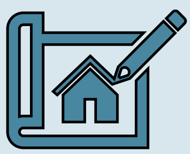
The sector's spending on different types of capital expenditure is showing signs of changing. While asset renewal has remained around 42 per cent over the last 6 years, spending on asset upgrade and expansion has increased while spending on new assets has decreased.

Figure 23 shows how the sector's spending on all categories except new assets increased since 2018–19.

- **New asset expenditure** decreased in 2022–23 and 2023–24. This was driven by falls in the metropolitan and regional city groups. Spending on new assets for the interface council group, which includes most of the fastest growing councils in Victoria, remained stable.
- **Asset upgrade and expansion** expenditure increased over the long term.
- **Asset renewal** declined between 2018–19 and 2022–23, before increasing sharply in 2023–24.

Types of capital expenditure

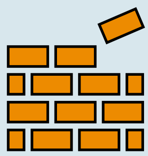
New assets



33% of capital expenditure

New asset that did not previously exist

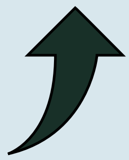
Asset renewal



42% of capital expenditure

Renews asset to original condition

Asset upgrade



19% of capital expenditure

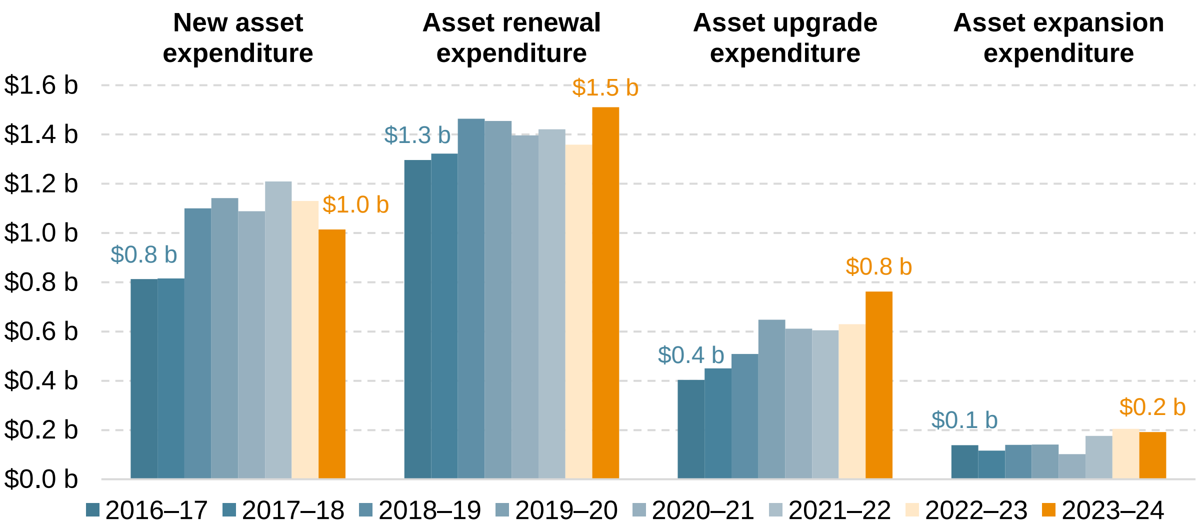
Upgrades asset to improve level of service

Asset expansion

5% of capital expenditure

Expands capacity of asset to service more people

Figure 23 Capital expenditure by asset type, 2016–17 to 2023–24
Inflation adjusted (2023–24 dollars)



Data source: Council annual reports (audited).

Asset renewal continued to be on target

The local government sector's spending on asset renewal and upgrade projects was, on average, above 100 per cent of the level of depreciation (see Figure 24).

The asset renewal ratio is the level of spending on asset renewal and upgrade projects as a percentage of depreciation (which is the decrease in the value of assets due to age and use). We use the asset renewal ratio to indicate whether the asset renewal gap may be growing (see Box 1).

An asset renewal ratio of 100 per cent indicates that spending on asset renewal and upgrades fully offsets the decline in value of the assets.

Box 1 Monitoring the asset renewal gap

Councils spend varying amounts to maintain or improve their assets. This amount may not be enough to keep their assets in the condition needed to maintain service levels. Any shortfall is the 'renewal gap'.

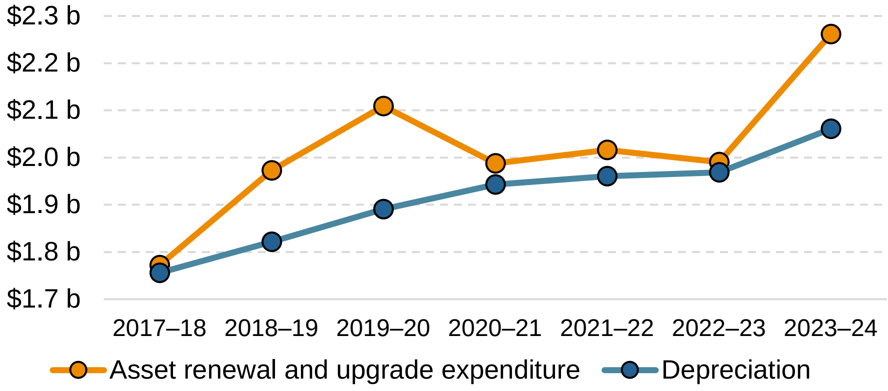
There is no widely accepted measure of the renewal gap. Councils have different operating environments and service level preferences. There is a lack of consensus around how the renewal gap could be determined objectively and on a consistent basis across councils. Such a measure would also require a full assessment of asset conditions, which may be costly and may not be done regularly by every council.

In this report, we have used the asset renewal ratio reported in the Local Government Performance Reporting Framework. We use this measure to provide an indication of whether the renewal gap is increasing or decreasing.

We note that this measure may not accurately reflect the actual condition of council assets. It does not account for past spending on assets and cannot provide an indication of the cumulative size of any asset renewal gap.

Councils are best placed to assess the condition of their assets and more accurately measure their renewal gap. This information should be shared with their communities to determine the levels and types of capital spending that will best meet the needs of their community.

Figure 24 Comparing spending on asset renewal and upgrade projects to depreciation, 2017–18 to 2023–24 – Inflation adjusted (2023–24 dollars)



Data source: Council annual reports (audited).

Year	Asset renewal ratio (%)
2017–18	101
2018–19	108
2019–20	112
2020–21	102
2021–22	103
2022–23	101
2023–24	110

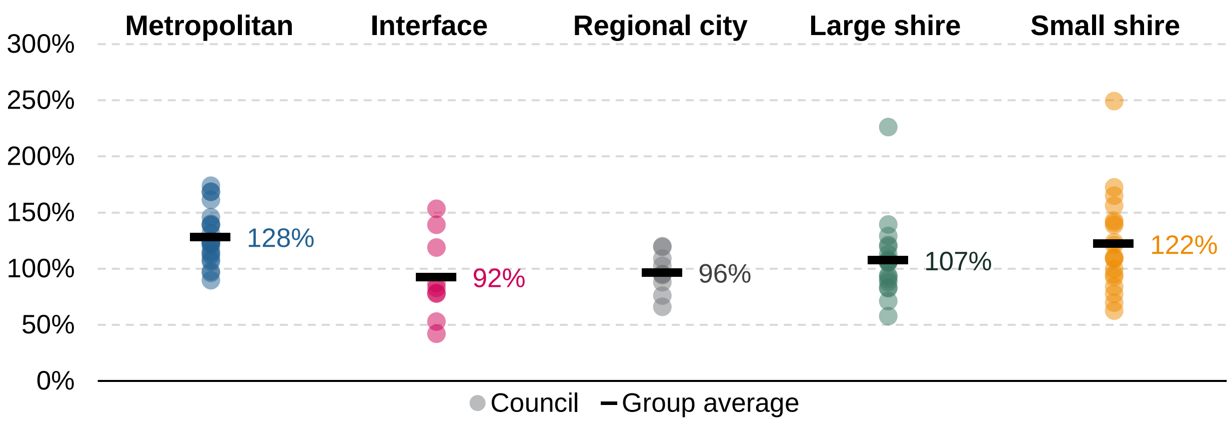
Most councils' renewal ratios were above 100 per cent

Figure 25 sets out the four-year average asset renewal ratio for each council and council group. The metropolitan, large shire and small shire groups all had ratios at or above 100 per cent on average. The average ratio for the interface and regional city groups was below 100 per cent.

Each council's asset renewal target will vary based on the service needs of the community. For example, councils with growing populations may prioritise spending on new assets over renewal, to increase their ability to provide services to a growing population.

Many of Victoria's fastest growing councils are in the interface and regional city groups, which may explain the lower results for these councils.

Figure 25 Average asset renewal ratios, council and group average, 2020–21 to 2023–24



Data sources: Council annual reports (audited), Local Government Performance Reporting Framework.

At the council level, 49 councils averaged asset renewal ratios above 100 per cent between 2020–21 and 2023–24. Of the 29 councils with asset renewal ratios below 100 per cent, 19 have ratios averaging above 80 per cent.

Services

This chapter presents our observations and findings about trends in councils' expenditure on service areas and changes in selected measures of service quality and community satisfaction.

Key observations

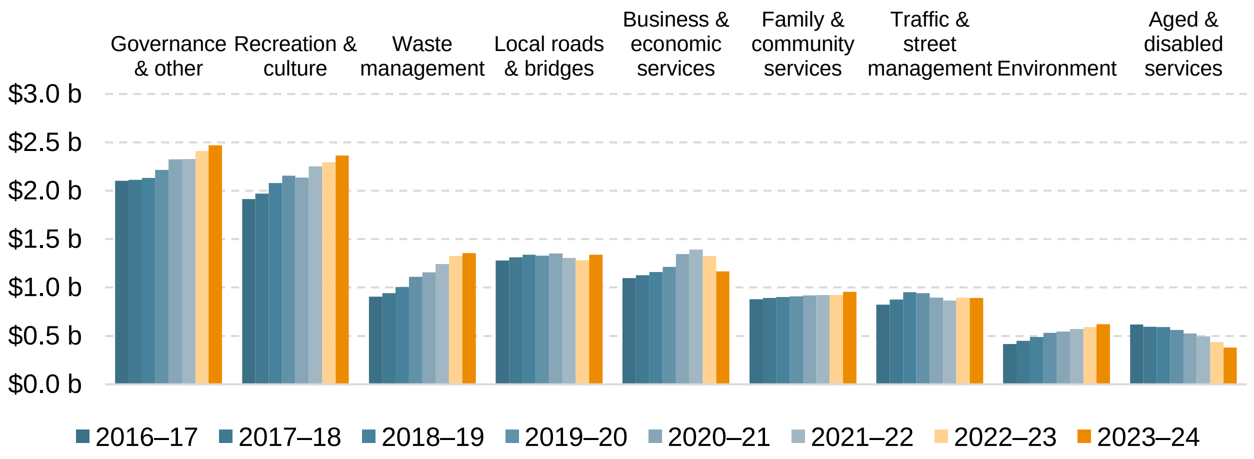
- Councils increased spending on waste services, while spending on aged and disabled services decreased.
- Service quality and satisfaction measures have trended downwards since 2019–20, but not for all groups. The metropolitan and interface groups have reported higher satisfaction ratings than the rural and regional council groups.

The composition of service expenditure has changed

We used data collected by the Victorian Local Government Grants Commission to understand how the composition of the sector's expenditure on different service areas has changed. The data allocates expenditure to 10 service areas.

Figure 26 shows how the sector's spending on different service areas has changed since rate capping was introduced in 2016–17. Spending on waste management, recreational and culture, and governance increased for the sector, while spending on aged and disabled services, and business and economic services decreased.

Figure 26 Sector expenditure by service category, 2016–17 to 2023–24
Inflation adjusted (2023–24 dollars)



Data source: Victorian Local Government Grants Commission – VGC 1.

Councils increased spending on waste, governance, and recreation and culture

Waste management was the **fastest growing** service area. Since 2021–22: • **4.4 per cent** annual increase • **$112 million** total increase.	The increase reflects disruption in the waste and recycling sector, with the collapse of service providers and ongoing reforms to the sector.
Governance and other was the **largest** service area. Since 2021–22: • **3.0 per cent** annual increase • **$143 million** total increase.	This includes the cost of council administration and financial management, but also things like natural disaster relief and recovery.
Recreation and culture was the **second largest** service area. Since 2021–22: • **2.5 per cent** annual increase • **$112 million** total increase.	This includes services such as sports facilities, parks, libraries, community centres and festivals.

Councils decreased spending on businesses, and aged and disabled care

Aged and disabled services saw the **largest decline.** Since 2021–22: • **12.2 per cent** annual decrease • **$113 million** total decrease.	Council spending continued to decrease in response to broader funding changes and the rise of non-council organisations providing aged and disabled services.
Business and economic services saw the **second largest decline.** Since 2021–22: • **8.4 per cent** annual decrease • **$225 million** total decrease.	Councils increased spending on businesses and commercial services during the coronavirus pandemic. It declined back to pre-pandemic levels in 2023–24.

Service quality and satisfaction have trended downwards

Changes in the level of expenditure may reflect changes in material costs, operating efficiencies, or service levels, however it does not inform us about service outcomes.

The Local Government Performance Reporting Framework requires councils to report on several service quality measures, including:

- waste management
- road maintenance
- statutory planning.

The framework also includes satisfaction measures, where community members from each local council are surveyed for how they perceive the quality of their council's services. We believe that local residents are well-positioned to assess service quality for each council due to how needs and priorities vary around the state.

The sector's service quality has seen mixed results

Measures of service quality have trended downwards since 2019–20 for the sector. However, the results between council groups was mixed.

Figure 27 shows how the trends for selected Local Government Performance Reporting Framework indicators of service quality have varied since the introduction of rate capping.

- **Sealed local roads maintained to condition standard** has fluctuated since 2016–17. In 2023–24, the regional city and metropolitan groups reported declines. However, the interface and small shire groups reported increases, and together, lead all groups in the metric.
- For most groups, the **number of kerbside collection bins missed** has trended upwards. In 2023–24, the sector recorded its highest number of missed kerbside bins since the introduction of rate capping with the largest increase coming from the regional city group. However, the interface group has seen the largest decrease, and has been consistently improving.
- The **number of planning applications decided within required timeframes** has decreased since 2019–20. However, in 2023–24 all council groups reported improvements in the indicator.

Community satisfaction measures have declined

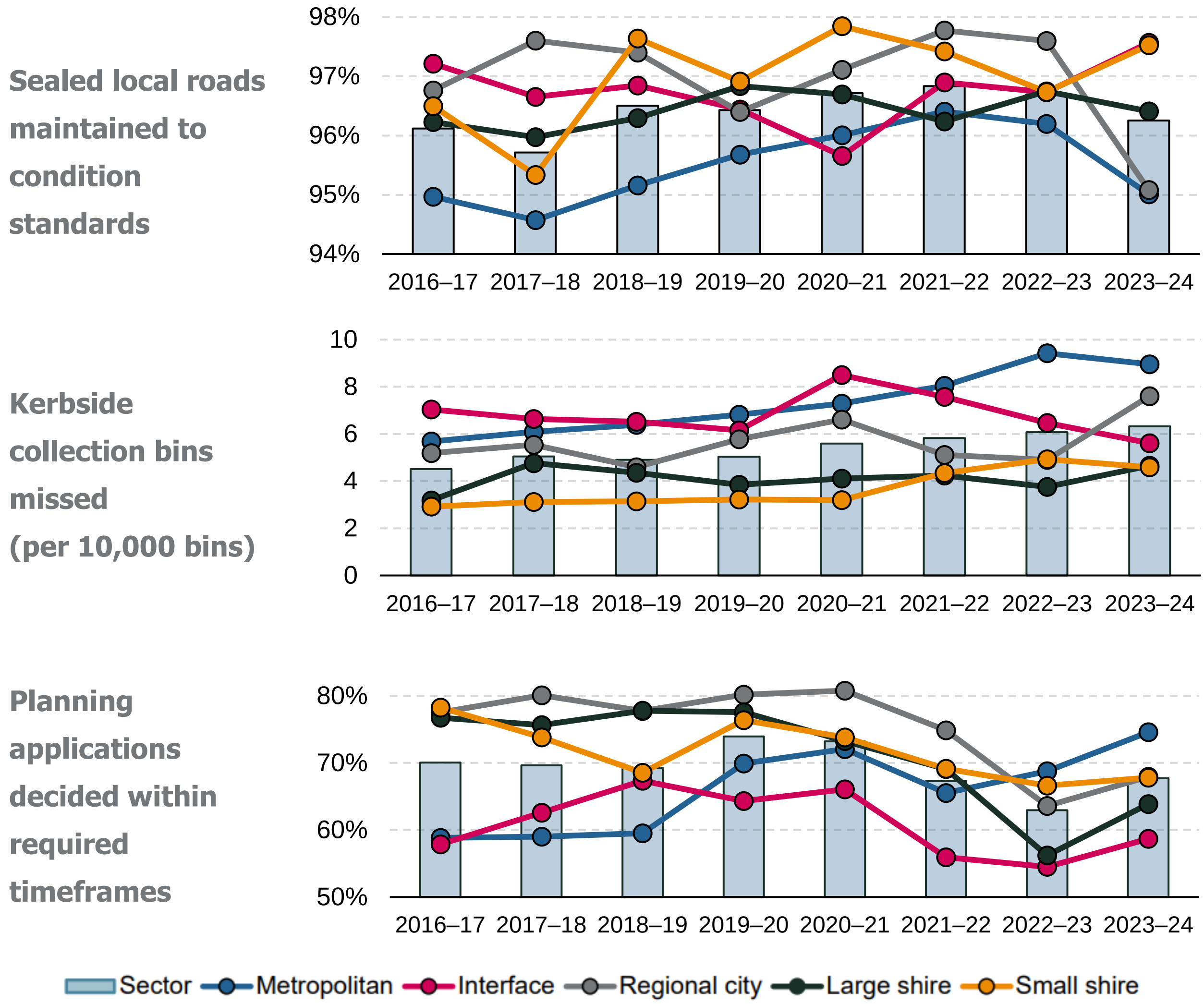
All three community satisfaction measures have declined since 2020–21 for the sector. However, the metropolitan and interface council groups reported better results than the regional city, large shire, and small shire groups.

Figure 28 shows how selected Local Government Performance Reporting Framework measures of community satisfaction have changed since 2016–17.

- The sector's highest satisfaction score comes from **community consultation and engagement**, where it sits at around 54 per cent. The metropolitan and interface groups lead other council groups, both with scores above 60 per cent.

- **Satisfaction with council decisions** has declined since 2020–21. It follows a similar trend to satisfaction with community consultation and engagement.
- **Satisfaction with sealed roads** has declined since 2020–21, decreasing by 2.9 percentage points per year. Metropolitan and interface councils reported higher scores than other councils, and both improved in 2023–24.

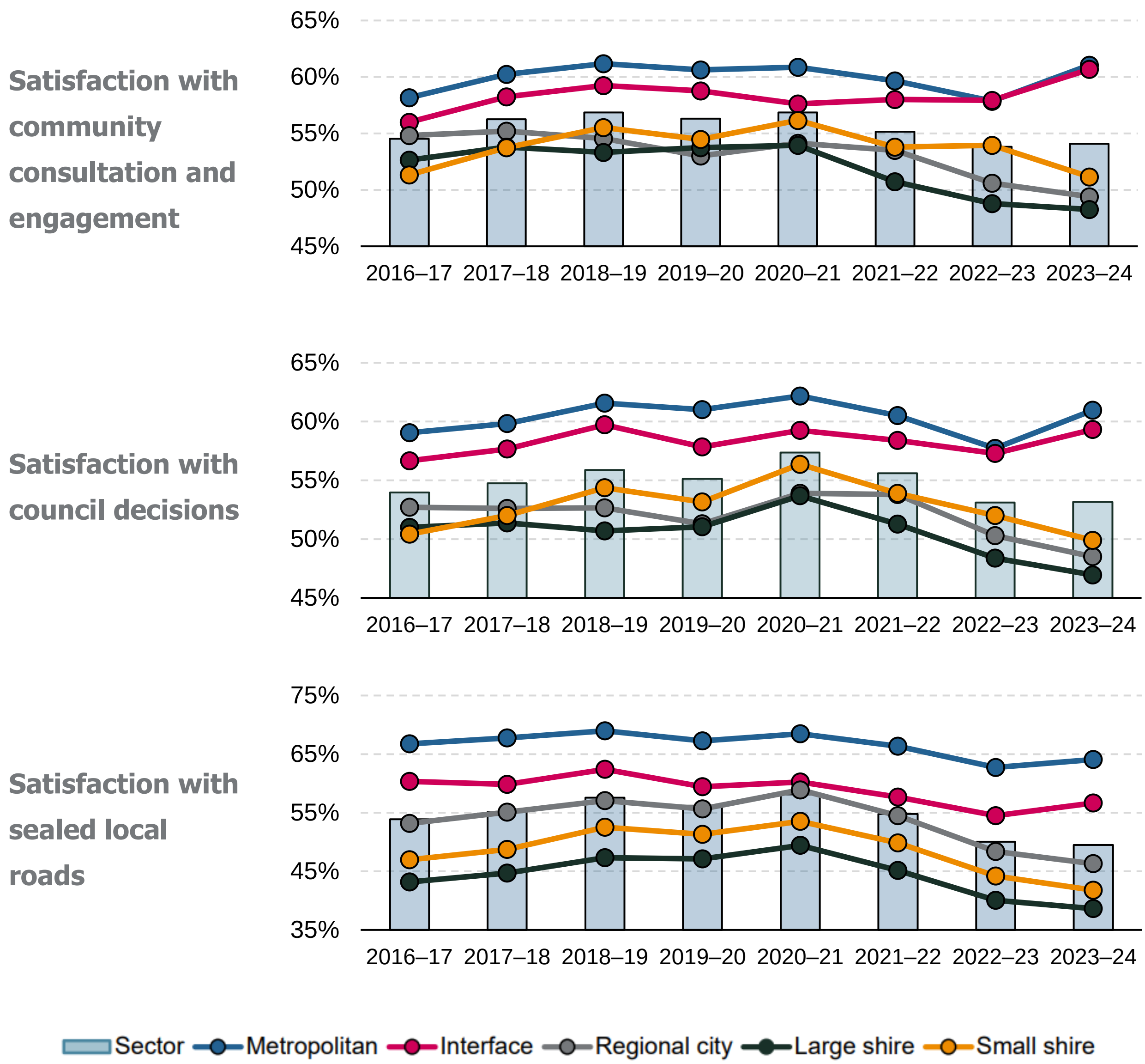
Figure 27 Selected measures of service quality, 2016–17 to 2023–24



Data source: Local Government Performance Reporting Framework.

Notes: Towong Shire Council did not provide data in 2021–22.

Figure 28 Selected measures of community satisfaction, 2016–17 to 2023–24



Data source: Local Government Performance Reporting Framework.

Notes: Towong Shire Council did not provide data in 2021–22.

Financial position

This chapter outlines our observations about councils' financial positions. We examine their operating positions, and their ability to pay bills, loans and other debts.

Key observations

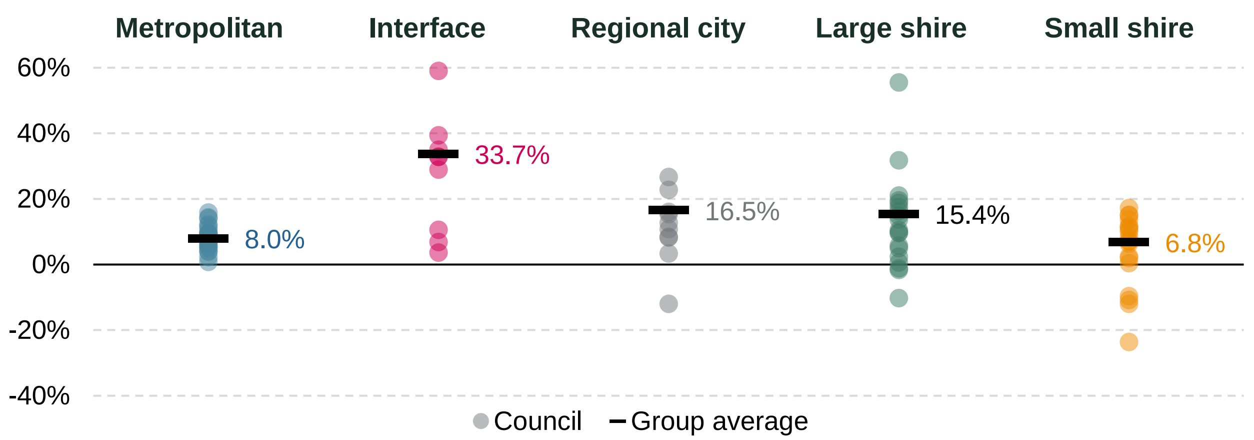
- **Operating position:** The sector's operating position has remained steady, with most councils in good financial health.
- **Working capital:** Nearly all councils had sufficient working capital. Six councils reported working capital ratios below 100 per cent in 2023–24, which is the highest number of councils with a ratio below 100 per cent since the introduction of rate capping.
- **Indebtedness:** Indebtedness increased slightly, driven by a rise in debt for the metropolitan council group. Overall, debt levels remained low.

The sector's operating position has remained steady

The sector's financial position has remained steady, with all groups reporting a positive surplus as a percentage of total revenue over the past two years.

Figure 29 shows the four-year average result for each council and council group. Seventy-three councils produced ongoing surpluses, suggesting that they are in a sound financial position. However, these surpluses are heavily reliant on grants and contributions that are outside of councils' control.

Figure 29 Surplus/deficit as a percentage of total revenue, council and group average, 2020–21 to 2023–24



Data source: Council annual reports (audited).

The sector's adjusted underlying result is lower than the early years of rate capping

The adjusted underlying result takes each revenue source into account and subtracts certain non-recurrent items from its revenue. These include one-off grants for capital works and developer contributions. An ongoing positive result suggests that a council can fund its current level of services and remain financially stable over the long term.

The sector reported an adjusted underlying deficit for the first time since the introduction of rate capping in 2023–24 (−6.8 per cent). However, this partly reflects changes in the timing of the financial assistance grant payments.

Figure 30 shows the impact of grant timing on the result. If councils received the grants in their allocated years, the sector would have reported adjusted underlying results of −1.4 per cent in 2022–23 and 0 per cent in 2023–24.

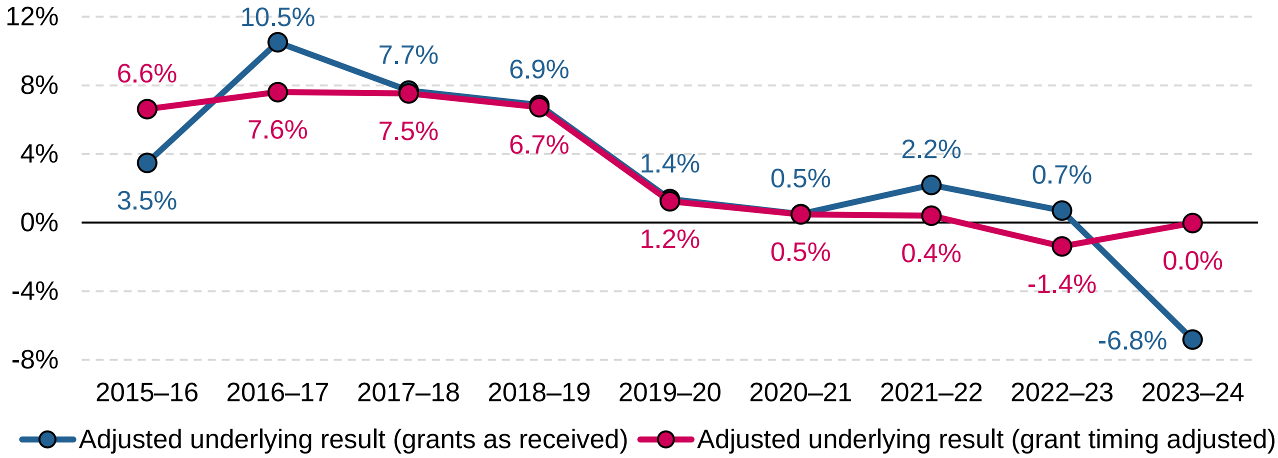
Since rate capping was introduced in 2016–17, the result has trended downwards. However, this largely reflects the impact of the coronavirus pandemic, resulting in a decline in 2019–20. The result has remained relatively stable at near-zero figures since 2020–21.

We have allocated the financial assistance grants to their intended year

The timing of the Australian Government's financial assistance grants had a large impact on reported grant revenue and councils' operating positions. These grants account for around 30 per cent of all grant funding to Victorian councils. We have allocated these grant payments to their intended years to improve understanding of how the sector's financial position has changed.

See Appendix A for more information.

Figure 30 Sector adjusted underlying result, with and without adjustment for the timing of financial assistance grants, 2015–16 to 2023–24



Data sources: Local Government Performance Reporting Framework, Victorian Local Government Grants Commission.

Individual council results vary but most councils remain in good financial health

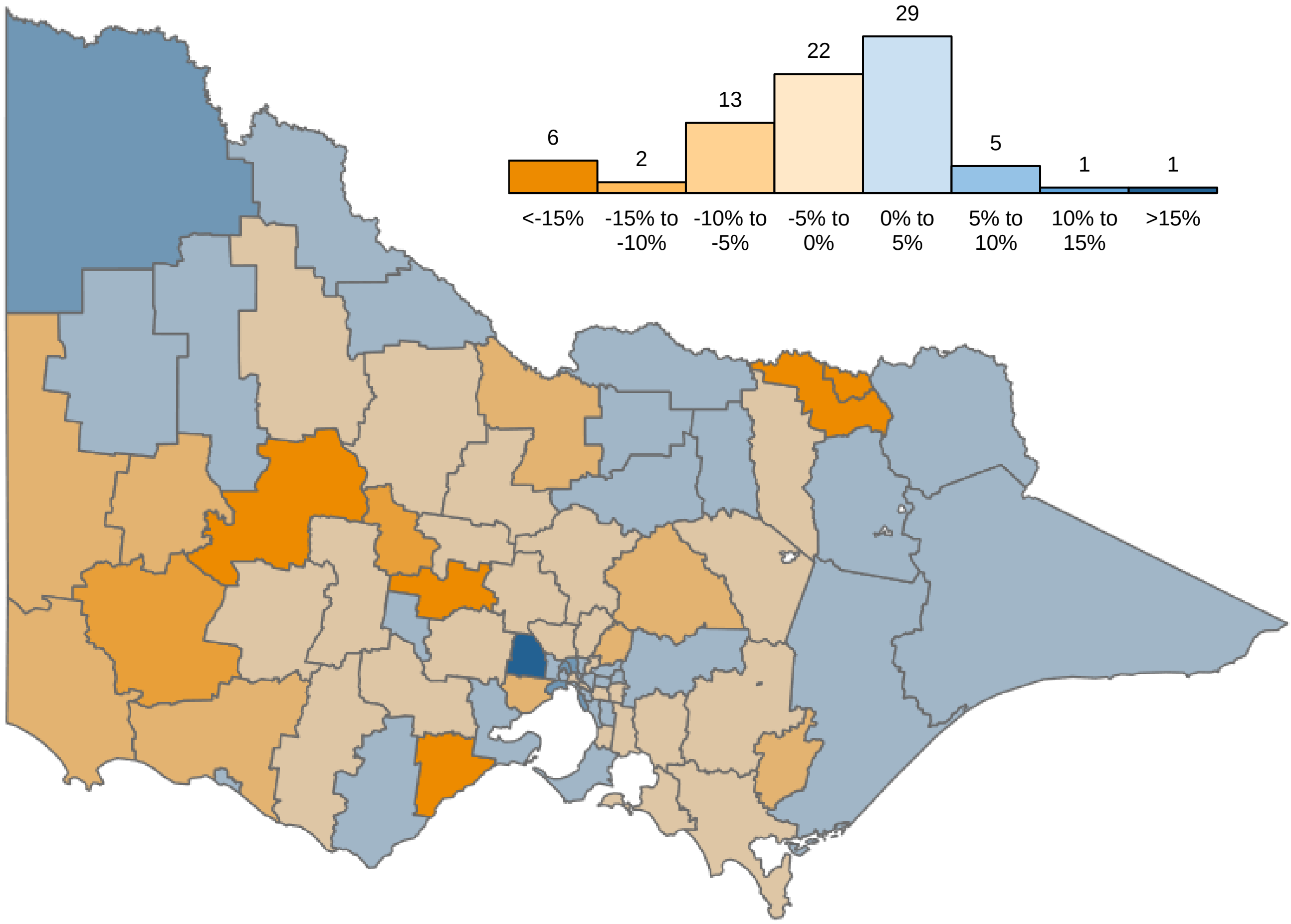
Forty-three councils reported average adjusted underlying deficits between 2020–21 and 2023–24. The metropolitan group is the only group that, on average, produced a surplus, and the interface group's result was slightly below zero. The rural and regional council groups – regional city, large shire, and small shire groups – all reported adjusted underlying deficits over the four years.

It is quite common for councils to report a negative operating result from time to time. However, councils that do so repeatedly may not have enough revenue to keep providing their usual range and level of services. Such councils would need to receive more one-off grants, increase their operating revenue or reduce their expenditure.

Nearly all 43 councils with an average adjusted underlying deficit had sufficient working capital and relatively low levels of debt. This suggests that these councils remain in good financial health.

Only two of these councils had a working capital ratio below 100 per cent on average over the four years. Four other councils with an adjusted underlying deficit reported a working capital ratio below 100 per cent in 2023–24. These measures are discussed in the following sections.

Figure 31 Average adjusted underlying result by council, 2020–21 to 2023–24



Data sources: Local Government Performance Reporting Framework, Victorian Local Government Grants Commission.

Nearly all councils had sufficient working capital

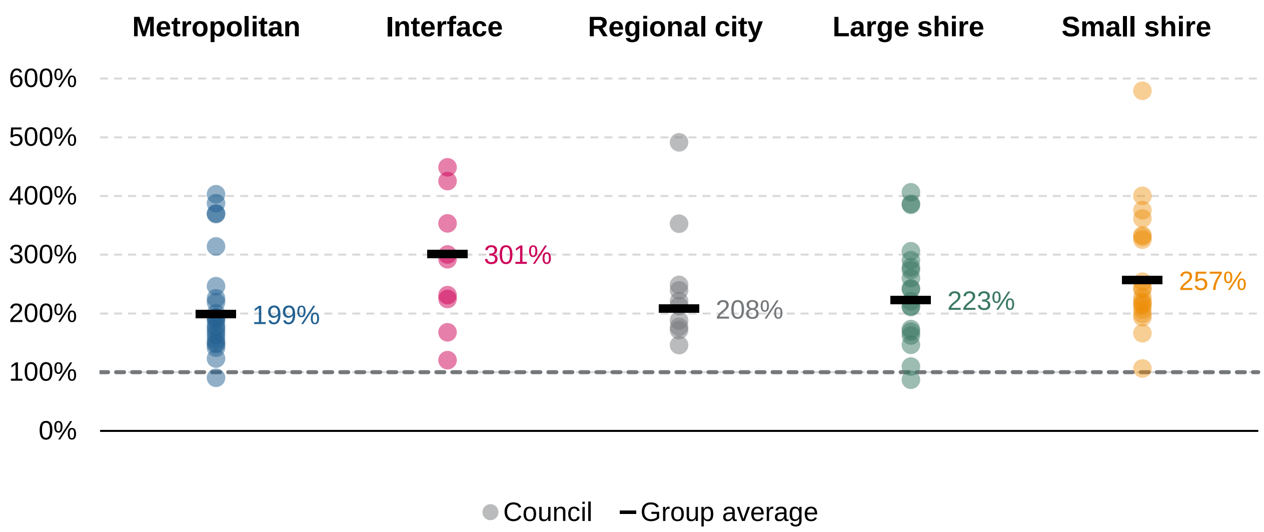
Working capital shows a council's current assets as a percentage of its current liabilities. When a council reports working capital greater than 100 per cent, this means it has enough assets available to meet its short-term liabilities, with funds remaining to deal with unexpected expenses. A council with a working capital ratio of less than 100 per cent may have some difficulty in repaying short-term liabilities as they fall due.

Six councils reported working capital ratios below 100 per cent in 2023–24. However, all other councils continue to report cash reserves above 100 per cent.

The sector and each of the council groups reported strong results between 2020–21 and 2023–24, with all groups averaging a working capital ratio near or above 200 per cent. Only two councils reported an average working capital ratio below 100 per cent over the four years.

The interface group reported higher ratios due to developer contributions. However, these are largely restricted to specific purposes.

Figure 32 Working capital ratio, council and group averages, 2020–21 to 2023–24



Data source: Local Government Performance Reporting Framework.

Indebtedness remained stable and debt continued to be low

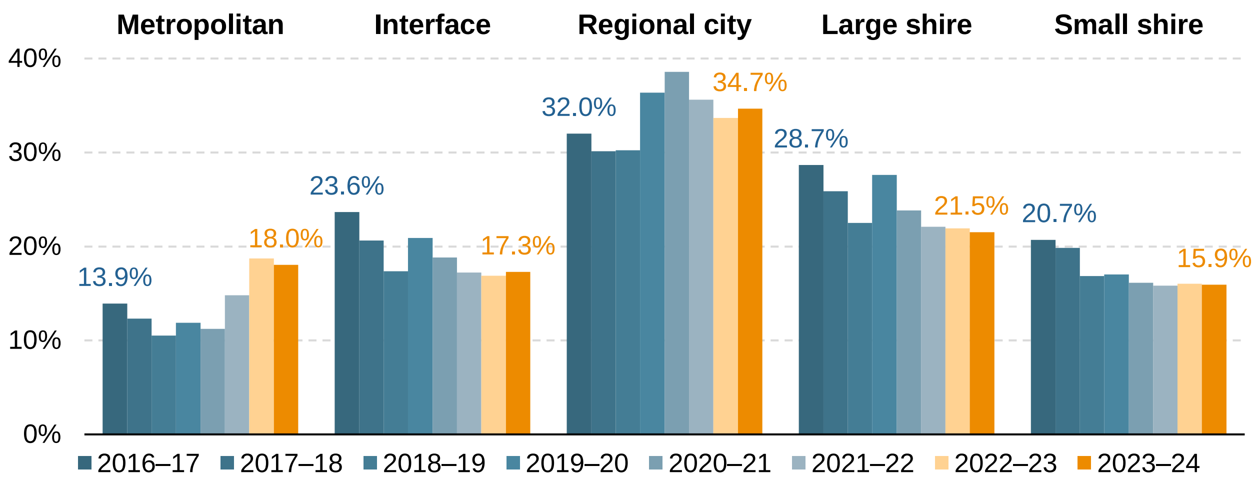
The indebtedness ratio is an indicator that measures a council's ability to repay its present levels of debt from the revenue produced by the council. It is the ratio of a council's non-current liabilities as a percentage of its 'own-source revenue', which includes revenue from rates and charges, user fees and statutory fines, and revenue from the sale of assets.

In general, we consider that an indebtedness ratio trending upwards over the long term, between 50 and 100 per cent, may be a sign of long-term financial sustainability risk.

Indebtedness has remained stable

The indebtedness ratio held steady for the sector, while each council group reported minor changes.

Figure 33 Indebtedness ratio, 2016–17 to 2023–24



Data source: Local Government Performance Reporting Framework.

The metropolitan group reported increases in indebtedness since 2019–20, while every other group reported decreasing levels of indebtedness ratios over the same period.

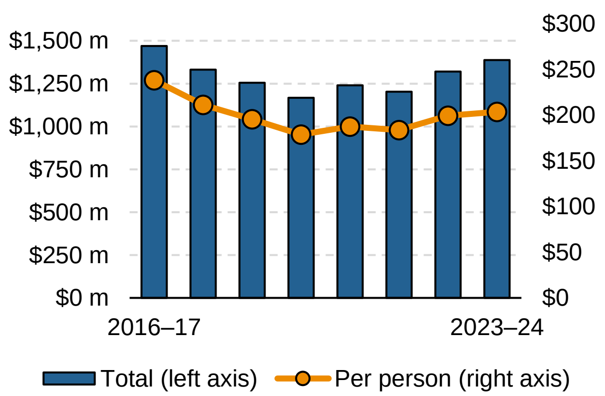
In 2023–24, the regional city group reported the highest indebtedness ratio of 34.7 per cent. The group has experienced the highest indebtedness ratio each year since the introduction of rate capping. The small shire group reported the lowest indebtedness ratio in 2023–24, with 15.9 per cent.

The amount of interest-bearing loans and borrowings increased but remained low

The sector's total amount of interest-bearing loans and borrowings has increased since 2019–20. The increase was driven by the metropolitan group, which reported around $760 million of interest-bearing loans and borrowings in 2023–24, higher than its reported $445 million in 2020–21.

Despite the increase, the amount of debt in both total and per person terms is lower than what was reported at the introduction of rate capping in 2016–17. The low level of debt reflects the sector's conservative approach to debt finance.

Figure 34 Interest-bearing loans and borrowings, 2016–17 to 2023–24 Inflation adjusted (2023–24 $)



Data source: Local Government Performance Reporting Framework.

Key terms used in this report

Term	Meaning
Asset: • current asset • non-current asset.	Value controlled by the council, arising from past transactions or other events such as acquiring property or business investments: • that council is planning to use sell or trade, this year or next year, such as cash • longer-term assets such as land and property and equipment.
Average rate increase	This is used to determine a council's compliance with the rate cap. It is the percentage difference between the base average rate (BAR) and the capped average rate (CAR), as defined by sections 185B and 185C of the *Local Government Act 1989*. If a council's average rate increase is less than or equal to the rate cap, the council is compliant. See Appendix B for more information.
Average rates	This refers to the rates paid by the average ratepayer and is calculated as total revenue from general rates and municipal charges divided by the number of rateable properties. See Appendix B for more information.
Capital expenditure: • new • renewal • expansion • upgrade.	Large expenditure, generally on long-lived assets such as roads or buildings, producing benefits to last for more than 12 months: • creating a new asset and new service or output • replacing an asset or returning the service level up to original level • extending the service of existing asset at current level to new users • enhancing an existing asset to provide a higher level of service.
Capped rates	Capped rates comprise general rates and municipal charges.
Contributions	Monetary and non-monetary contributions from developers or landowners towards new infrastructure for commercial and residential developments.
Council group	A council group is a group of similar councils. The five council groups we refer to in this report are: metropolitan, interface (metropolitan fringe), regional cities, large shires and small shires. See Appendix D for a list of the councils in each group.
Depreciation	The regular reduction in the value of a council's physical assets over time, usually reflecting wear and tear.
Expenditure: • recurrent • non-recurrent.	Costs reducing a council's revenue; the payment of expenses incurred by the council to obtain assets or services: • operating expenses on routine functions of an organisation, such as wages/salaries, rentals, interest on debt • other costs, including costs for unplanned events.
Grants	Recurrent and non-recurrent grants from both state and federal governments for operating and capital purposes.

Higher cap	Councils can apply to the Essential Services Commission for a higher cap if the Minister's cap is not sufficient to meet their needs. Councils can apply for up to four years of higher caps in one application.
Indebtedness	Non-current liabilities as a percentage of own source revenue.
Inflation adjusted	This means the numbers and analysis have been adjusted by the Consumer Price Index to take into account the effects of inflation (the increases in the general cost of goods and services in the economy). When reported values or growth rates are inflation adjusted, any increases are above the level that can be explained by increases in the general cost of goods and services in the economy. The dollar amounts in this report are shown in 2023–24 dollars.
Liability: • current liability • non-current liability.	A present obligation of the council, arising from past events, where settlement is expected to result in reduced economic benefits: • one that council is planning to settle or trade this year or next • longer-term liabilities such as provisions for employee entitlements.
Minister's cap	The rate cap set by the Minister for Local Government each year. It applies by default to all councils unless they seek and obtain approval for a higher cap from the Essential Services Commission.
Municipal charges	Councils can levy a municipal charge to recover some of the costs of administering the council.
Nominal terms or nominal value	Expressed as an amount in the dollars of the relevant period, with no adjustment for inflation since that time, in contrast with 'real terms'.
Operating expenditure: • employee expenses • maintenance • other.	Recurrent expenses on goods and services; includes the following: • wages and salaries, leave, termination pay, superannuation plans • routine attention to capital assets so they last their planned lives • other workplace costs such as rent, fuel and office supplies.
Other rates and charges	These are excluded from rate capping. They include special rates and charges (for example, charges for service provided in business districts); supplementary rates and charges (on new or improved properties); levies on cultural and recreational properties; revenue in lieu of rates (such as payments made by electricity generators instead of rates).
Rate cap (alternatively 'applicable cap')	This is the maximum percentage amount that a council can increase its average rates in a rating year. A council's rate cap will either be the minister's cap or an approved higher cap.
Rate capping	Rate capping is a system that limits the amount councils can increase their general rates and municipal charges each year. This system has applied to annual rate increases since 2016–17.
Rates	Refers to general rates and municipal charges. These have been capped since 2016–17.

Rates and charges	Refers to capped rates, services charges and 'other rates and charges'. 'Other rates and charges' includes special rates and charges; (e.g. charges for services provided in business districts); supplementary rates and charges (on new or improved properties); levies on cultural and recreational properties; revenue in lieu of rates (such as payments made by electricity generators instead of rates).
Real terms	Expressed as an amount in the dollars of the current (reporting) period, adjusted for inflation since the time of the transaction that is reported.
Revenue	Income for councils, including: • rates • grants from the Victorian Government and the Australian Government • developer contributions • user fees and statutory fees and fines.
Sector as a whole	This is all 79 individual councils combined.
Service rates and charges	This refers to rates and charges for services provided by councils as referred to in section 162 of the *Local Government Act 1989*. These are primarily used to recover the cost of kerbside waste collection services. Some councils also use service charges to fund community waste services (such as street cleaning).
User fees and statutory fees and fines	Revenue collected independently of rates, such as permits, parking fees and other fees for services, which may be paid by ratepayers, residents or non-residents of the municipality.
Working capital	Current assets as a percentage of current liabilities.

Appendix A: How we allocated financial assistance grant revenue

We have adjusted grant revenue in this report to reflect the intended year of financial assistance grants. This helps smooth out volatility related to reporting requirements and improves understanding as to whether any changes in grant revenue, and in turn, key financial indicators, are meaningful.

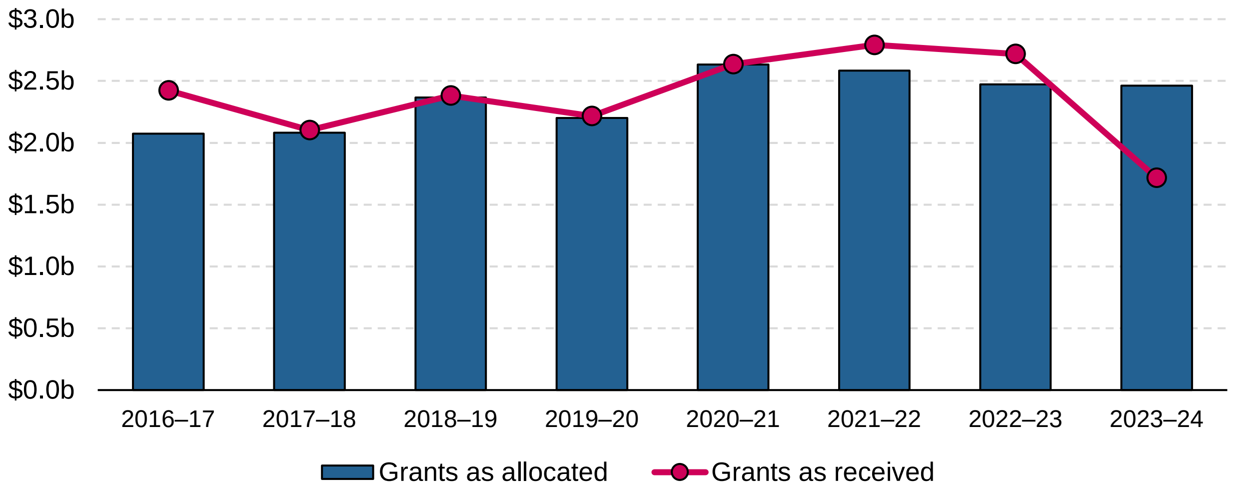
Nearly 30 per cent of council grant revenue is provided by the Australian Government through the financial assistance grant program. Councils are required to report financial assistance grant revenue in the year it is received, even if the payment is meant for the following year.

From 2016–17 to 2022–23, councils received at least half of their financial assistance grants in advance of their intended year. For example, councils received 75 per cent of their 2022–23 financial assistance grant allocation in 2021–22, and in 2022–23 councils received 99.8 per cent of their 2023–24 allocations.

In contrast to previous years, councils did not receive an advance payment in 2023–24. Rather, the advance payment was paid on 5 July 2024 (the 2024–25 financial year). This resulted in much lower reported grant revenue than what was actually allocated for 2023–24.

Figure A.1 Comparing revenue from grants, as received and as allocated, 2016–17 to 2023–24

Inflation adjusted (2023–24 dollars)



Data sources: Council annual reports (audited), Victorian Local Government Grants Commission.

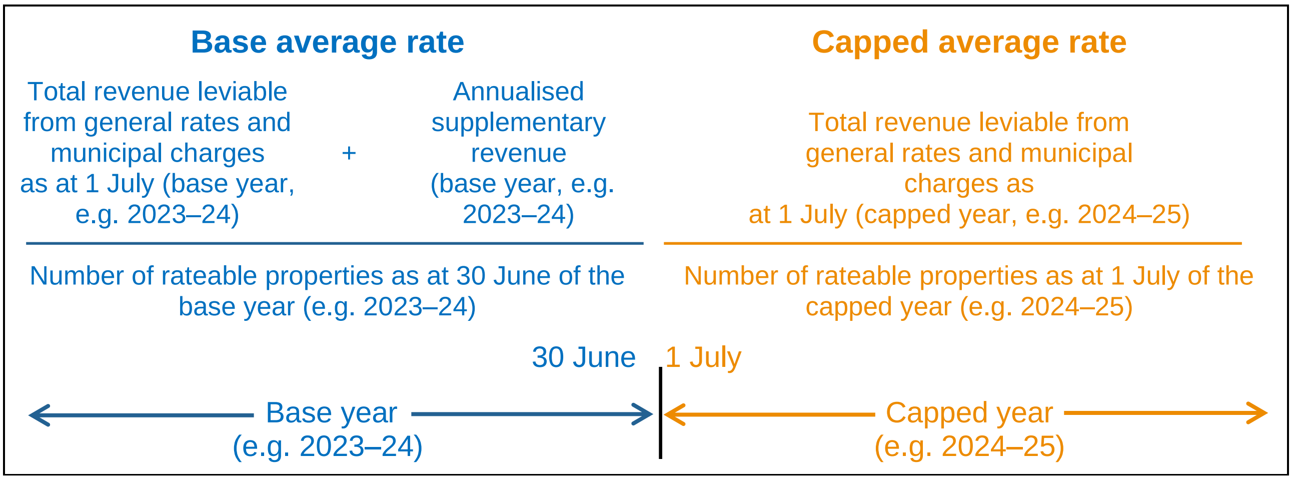
Appendix B: Rate cap explanation

The rate cap limits increases in each council's average rates

The rate cap limits the maximum amount a council can increase its average rates in a rating year. It is a percentage amount (for example, 3.00 per cent).

'Average rates' refers to the rates paid by the average ratepayer and is calculated as total revenue from general rates and municipal charges divided by the number of rateable properties (as shown in Figure B.1). The rate cap does not include other charges and levies such as service rates and charges, special rates and charges, revenue in lieu of rates and the Fire Services Levy.

Figure B.1 Average rates



Note: The base year includes annualised supplementary revenue from general rates and municipal charges. This ensures that the rate cap includes new properties and any changes to property values that occur throughout the year.
[a] Section 185B, *Local Government Act 1989*. [b] Section 185C, *Local Government Act 1989*.

A council is compliant if the capped average rate does not exceed the base average rate by more than the rate cap. The percentage difference is called the average rate increase. In other words, if a council's average rate increase is less than or equal to the applicable rate cap, the council is compliant.

Each year the commission assesses each council's compliance with the rate cap.

See our website for more information about the rate cap compliance process and past compliance reports.

Appendix C: Higher cap applications

Between 2016 and 2019, we approved 11 councils' higher cap applications, including four applications covering multiple years.

In 2025, we received our first higher cap applications in six years. Hepburn Shire Council and Indigo Shire Council applied for higher caps for the 2025–26 financial year.

Table C.1 Higher cap applications

Year	Rate cap	Number of compliant councils	Number of approved higher caps
2016–17	2.50%	79	6
2017–18	2.00%	76	4
2018–19	2.25%	75	4
2019–20	2.50%	79	4
2020–21	2.00%	79	3
2021–22	1.50%	79	0
2022–23	1.75%	79	0
2023–24	3.50%	79	0
2024–25	2.75%	79	0
2025–26	3.00%	n/a	2

See our website for more information about the higher cap applications.

Appendix D: Council groups

Table D.1 Metropolitan councils

Councils in this group	
Banyule City Council	Manningham City Council
Bayside City Council	Maribyrnong City Council
Boroondara City Council	Maroondah City Council
Brimbank City Council	Melbourne City Council
Darebin City Council	Merri-bek City Council
Frankston City Council	Monash City Council
Glen Eira City Council	Moonee Valley City Council
Greater Dandenong City Council	Port Phillip City Council
Hobsons Bay City Council	Stonnington City Council
Kingston City Council	Whitehorse City Council
Knox City Council	Yarra City Council

Table D.2 Interface councils

Councils in this group	
Cardinia Shire Council	Nillumbik Shire Council
Casey City Council	Whittlesea City Council
Hume City Council	Wyndham City Council
Melton City Council	Yarra Ranges Shire Council
Mornington Peninsula Shire Council	

Table D.3 Regional city councils

Councils in this group	
Ballarat City Council	Latrobe City Council
Greater Bendigo City Council	Mildura Rural City Council
Greater Geelong City Council	Wangaratta Rural City Council
Greater Shepparton Council	Warrnambool City Council
Horsham Rural City Council	Wodonga City Council

Table D.4 Large shire councils

Councils in this group	
Bass Coast Shire Council	Moira Shire Council
Baw Baw Shire Council	Moorabool Shire Council
Campaspe Shire Council	Mount Alexander Shire Council
Colac Otway Shire Council	Moyne Shire Council
Corangamite Shire Council	South Gippsland Shire Council
East Gippsland Shire Council	Southern Grampians Shire Council
Glenelg Shire Council	Surf Coast Shire Council
Golden Plains Shire Council	Swan Hill Rural City Council
Macedon Ranges Shire Council	Wellington Shire Council
Mitchell Shire Council	

Table D.5 Small shire councils

Councils in this group	
Alpine Shire Council	Mansfield Shire Council
Ararat Rural City Council	Murrindindi Shire Council
Benalla Rural City Council	Northern Grampians Shire Council
Buloke Shire Council	Pyrenees Shire Council
Central Goldfields Shire Council	Borough of Queenscliffe Council
Gannawarra Shire Council	Strathbogie Shire Council
Hepburn Shire Council	Towong Shire Council
Hindmarsh Shire Council	West Wimmera Shire Council
Indigo Shire Council	Yarriambiack Shire Council
Loddon Shire Council	