

Council Rate Cap Compliance Report 2025–26

5 December 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.

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Contents

Introduction	iii
Compliance with the rate caps for 2025–26	1
How rate caps are set	1
Alpine Shire Council and Hindmarsh Shire Council were non-compliant with the rate cap	1
Two councils amended their rates after adopting their budgets	2
Changes to individual rates notices may be different from the rate cap	3
Council statements of explanation	4
Service rates and charges in 2025–26	6
All councils used service rates or charges to recover waste management costs	6
Eight councils introduced service charges	7
Next steps	9
Appendix A: How average rates are calculated	10
Appendix B: Our role in monitoring and reporting compliance	11

Introduction

The Essential Services Commission monitors and reports on Victorian councils' compliance with rate caps under the Fair Go Rates system.

This report outlines:

- whether each council was compliant with the average rate cap or a higher cap (if applicable) when setting rates for 2025–26
- changes to service rates and charges for 2025–26.

See [Appendix A](#) and [B](#) for more information on how average rates are calculated and our role in monitoring and reporting compliance.

Compliance with the rate caps for 2025–26

How rate caps are set

The Fair Go Rates system limits the maximum amount a council can increase its average rates in a year without seeking approval for a higher cap. 'Average rates' refers to the rates paid by the notional average ratepayer. It is calculated as total revenue from general rates and municipal charges divided by the number of rateable properties.

Each year the Minister for Local Government sets the average rate cap for the following rating year by general Order. A council may apply to the Essential Services Commission for a higher cap. If we are satisfied that the proposed higher cap meets legislative requirements, we set a higher cap by special Order.

To comply with the rate cap, the percentage change in a council's average rates must not exceed the rate cap specified in a general Order or special Order that applies to it.¹

Alpine Shire Council and Hindmarsh Shire Council were non-compliant with the rate cap

The Minister for Local Government set the average rate cap at 3.00 per cent for the 2025–26 rating year, which all but two councils were required to comply with. We approved a higher cap for the following councils:²

- Hepburn Shire Council: 10.00 per cent
- Indigo Shire Council: 7.54 per cent.

Based on the data councils provided to us in their annual compliance information for 2025–26:

- **Alpine Shire Council** was materially non-compliant with the average rate cap.
- **Hindmarsh Shire Council** was immaterially non-compliant with the average rate cap.³
- **77 councils** were compliant with the average rate cap or higher cap.
 - Ballarat City Council and Bayside City Council set rate increases to 0 per cent.
 - The two higher cap councils were compliant with their approved higher caps.

¹ The definition for the average rates is shown in [Appendix A](#).

² The approved higher caps are inclusive of the minister's average rate cap.

³ We consider that non-compliance is 'immaterial' if it is negligible and of no immediate concern.

Table 1 **Non-compliant councils**

Council	Average rate increase	Excess revenue above 3 per cent cap	Impact on average ratepayer	Result
Alpine Shire Council	3.96%	\$168,713	\$18.47	Material non-compliance
Hindmarsh Shire Council	3.05%	\$4,563	\$0.88	Immaterial non-compliance

Given the material nature of Alpine Shire Council's non-compliance, we expect that council will take action to correct its non-compliant result.

We gave these councils an opportunity to explain why they were non-compliant with the rate cap for 2025–26. Their statements are shown in the [next chapter](#).

Each council's compliance information is certified as accurate by the council's chief executive officer. We run a range of checks on the data submitted by councils to validate their compliance, but do not independently verify the underlying data submitted by each council.⁴

Two councils amended their rates after adopting their budgets

Councils are required to declare their rates and adopt their budgets by 30 June each year. To ensure they are compliant with the rate cap, some councils amend their rates in the dollar or municipal charges after adopting their budgets.⁵ Councils do this when unexpected valuation changes or other calculation errors mean that the rates initially set would not comply with the rate cap.

In 2025–26, two councils changed their rate in the dollar to ensure they were compliant with the rate cap:

- Cardinia Shire Council
- Yarriambiack Shire Council.⁶

These councils changed their rate in the dollar before we assessed compliance and provided evidence to show that the amounts levied on their communities were compliant with the rate cap.

⁴ See [Appendix B](#) for more information about how we assess compliance.

⁵ A property's general rates are calculated by multiplying the valuation of property by the rate in the dollar. If a council decreases its rate in the dollar, it decreases its general rates revenue and average rates. Similarly, if a council decreases its municipal charge, it decreases its municipal charge revenue and average rates.

⁶ An earlier version of this report stated that Loddon Shire Council amended their rates to ensure compliance, however this was incorrect.

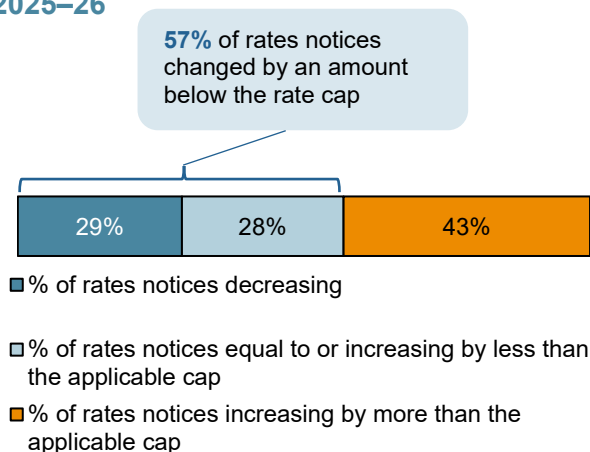
It is the responsibility of councils to ensure that the process they follow to amend their rates meets the requirements of the *Local Government Act 1989* and *Local Government Act 2020*.

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

As the rate cap calculation is applied to a council's average rates, a council can comply with the rate cap even if individual ratepayers experience increases in their rates notices that are higher than the rate cap.

Figure 1 shows the proportion of ratepayers that experienced rate decreases, increases below the rate cap, or increases above the rate cap in 2025–26. While 43 per cent of ratepayers experienced an increase above the rate cap, 28 per cent experienced rate increases below the cap and 29 per cent experienced decreases.

Figure 1 – Distribution of rate increases in 2025–26



Data source: Essential Service Commission information request. Only 66 of 79 councils provided the data.

Why individual rates notices can increase above the rate cap

The total amount shown on an individual rates notice includes general rates, municipal charges, and other charges and levies. Changes in individual rates notices may be different from the rate cap for three main reasons:

- The value of a property may increase or decrease relative to other properties in the municipality.
- Different rates in the dollar (called 'differential rates') may apply depending on how a property is classified. For example, whether it is classified as residential, commercial, industrial, or rural. If the classification of a property changes, the differential rate that applies to that property may change.
- Other charges and levies not included in the rate cap, such as service charges, may increase or decrease. The rate cap applies to general rates and municipal charges only.

Council statements of explanation

As part of our compliance monitoring and reporting, we give councils an opportunity to explain why they were non-compliant. Alpine Shire Council and Hindmarsh Shire Council provided statements to the commission which are shown below.

We observe that Alpine Shire Council's statement of explanation places responsibility for non-compliance on technical advice provided by a third-party software vendor. Under the Fair Go Rates system, councils are ultimately responsible for ensuring information used to calculate rates and comply with the rate cap is accurate, and that effective processes are in place to review and verify that information. Reliance on third-party advice does not obviate this responsibility.

Alpine Shire Council's statement of explanation⁷

Reason for non-compliance: Council's Revenue and Rating Plan 2025 provided for a change to the differential rating strategy for a small proportion of properties. This change was accepted to have an overall negative financial impact on Council. In preparing for this change, Council sought assistance from our software vendor who advised that the system changes could be made well in advance and would not affect the rate modelling figures. System changes were made based on this advice. This unfortunately resulted in the rating category change of 245 properties being enacted prior to the 2025–26 financial year, resulting in a net neutral financial impact to Council, but causing the rate cap to be exceeded. Council relied on corporate system reports at 30 June 2025 and 1 July 2025 (as required) to ensure compliance was monitored. However, as the changes were made in 2024–25, the reports did not alert Council that the rate cap may be exceeded. There was no intent to exceed the rate cap.

What actions council may take to rectify the non-compliance: Council will rectify the error in the 2026–27 rating assessment process.

How council will improve internal processes to prevent non-compliance in future years: This is a singular rating differential system change, made for the first time on a relatively new software rating system. Council officers sought technical advice on making system changes and relied on the advice provided. Procedural documentation will be updated for future reference. We do not regard future non-compliance to be a material risk.

⁷ Email from Alpine Shire Council's chief executive officer to the Essential Services Commission on 12 November 2025.

Hindmarsh Shire Council's statement of explanation⁸

Hindmarsh Shire Council works diligently to ensure compliance with the rate cap. In previous years, we have reported total increases well under the rate cap (3.14% in 2023–2024 with a set cap of 3.50% and 2.47% in 2024–2025 with a set cap of 2.75%), however unfortunately when determining 2025–2026 rates, Council utilised an early set of valuations provided by the Valuer General, rather than the final valuations (inclusive of revaluations based on objections or other significant changes to the property value), that ultimately resulted in a decrease in the total value of ratable properties.

This non-compliance was tabled at the Council meeting held on 24 September 2025, where Council resolved to '[acknowledge] the non-compliance with the 2025–2026 Rate Cap and [endorse] the proposed corrective action to proportionately decrease the total rates levied in 2026/2027 by the excess amount...that is to be confirmed by the Essential Services Commission.'

Council has undertaken an investigation into the error and has committed to several actions to prevent non-compliance in future years, including procedural reviews and resource allocation.

We will follow up and report on any actions these councils take to correct their non-compliance in our 2026–27 rate cap compliance report.

For more information on these statements, readers should contact the relevant council.

⁸ Email from Hindmarsh Shire Council's acting chief executive officer to the Essential Services Commission on 5 November 2025.

Service rates and charges in 2025–26

Service rates and charges are not included in the rate cap. We monitor and report on councils that change the structure of their service rates and charges. This helps us identify any unexplained or unusual increases in service rates and charges revenue.

The *Local Government Act 1989* allows for councils to levy a service rate or charge for waste, recycling and/or resource recovery services. Service charges are flat charges and services rates are applied against the value of the ratepayer's property.

All councils used service rates or charges to recover waste management costs

All 79 councils have adopted service rates or charges to either partially or fully recover waste management costs. Overall, councils are budgeting to increase service rates and charges revenue to \$1.37 billion in 2025–26. This is an increase of 5.9 per cent per rateable property for the sector, which is greater than last year's 3.2 per cent increase.

Our analysis of councils' budgets shows that the annual change in service rate or charge revenue per property varies across councils, ranging from a 5 per cent decrease (Mansfield Shire Council) to a 58 per cent increase (Glenelg Shire Council).⁹

The difference between councils reflects variations in cost recovery and service levels. For example, all councils use service rates or charges to fund kerbside collection, which includes general waste, recycling, food organics and garden organics, glass, and hard waste collections.¹⁰ However, the nature and frequency of these services vary from council to council.

Some councils also use service rates and charges to recover the costs of delivering community waste services. Community waste services is a broad term that includes services that keep public spaces clean, such as the provision and maintenance of public bins, street sweeping and litter removal.

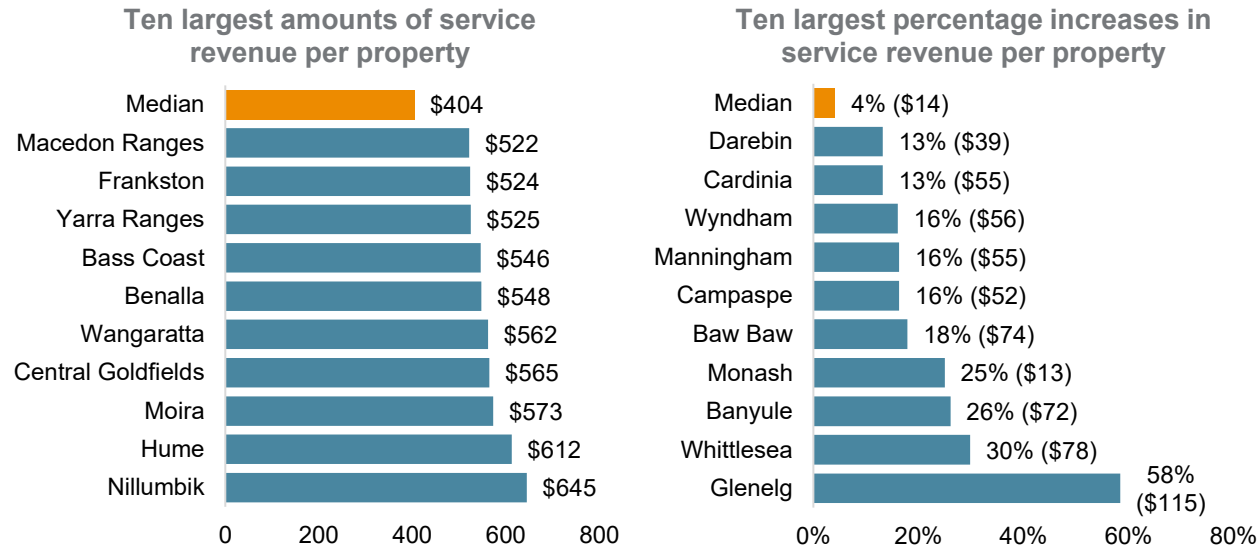
The Minister's Good Practice Guidelines for the use of Service Rates and Charges took effect on 1 March 2024. These guidelines articulate the Minister for Local Government's view of good practice,

⁹ This excludes Indigo Shire Council which applied for a higher cap to transition service charge revenue into general rates, resulting in a 7.54 per cent increase in general rates and an 18 per cent decrease in service charge revenue.

¹⁰ The Victorian Government has mandated that all councils must offer a glass recycling service by 2027 and a food organics and garden organics service by 2030. Many councils are rolling out these services ahead of the Victorian Government's deadlines. More information about the state government's new four bin system can be found at <https://www.vic.gov.au/Standardising-household-recycling-across-Victoria>.

but they are not mandatory for councils to comply with. It is a matter for councils to decide whether, and if so, how, they want to comply with the guidelines. It is not our role to assess whether councils have complied with the guidelines.

Figure 2 **Service rates and charges revenue per property by council**



Data source: Council annual budgets 2025–26. The data shows the revenue per property from service rates and charges, not changes in individual waste charges. All data is publicly available.

Eight councils introduced service charges

Each year, we report on the introduction of new service rates or charges to promote transparency around council rating practices and ensure that councils are accountable to their ratepayers. For 2025–26, we identified eight councils that introduced new service charges or made significant changes to their rating strategy.

Ballarat City Council

Ballarat City Council introduced a glass service and changed its service charge structure to be itemised by the four waste services it provides: general, recycling, glass, and food organics and garden organics. The combination of charges increased by \$43 and total service charge revenue is budgeted to increase by 11.1 per cent (\$3.3 million). These changes were informed by over 7,900 survey responses received over two rounds of community consultation.

Campaspe Shire Council

Campaspe Shire Council introduced a \$94 Waste Facilities Levy intended to fund services shared by the community such as tips and landfill rehabilitation. Total service charge revenue is budgeted to increase by 16.9 per cent (\$1.2 million). Campaspe held a roundtable with nominated residents and undertook a public consultation process on the Waste Facilities Levy.

Glenelg Shire Council

Glenelg introduced a new food organics and garden organics service, which has contributed \$84 to the \$182 increase in the waste management charge. The remaining \$98 increase reflects a new kerbside waste services contract and a move to full cost recovery. Total service charge revenue is budgeted to increase by 59 per cent (\$1.6 million). Glenelg consulted with the community through the draft budget consultation process and via other local consultation platforms.

Manningham City Council

Manningham City Council introduced new charges for each bin size, designed to reflect the cost to council of the state government landfill levy. Manningham reduced its other waste charges, however total service charge revenue is budgeted to increase by 17.2 per cent (\$3.1 million).

Mitchell Shire Council

Mitchell Shire Council changed its service charge structure and introduced food organics and garden organics, and glass waste services. Mitchell is budgeting to increase its service charge revenue by 9.7 per cent (\$1.2 million). Mitchell sought community feedback on the changes through an online survey as part of the yearly budget development consultation and held a ratepayer working group on kerbside service education and engagement.

Moira Shire Council

Moira Shire Council changed its service charge structure and introduced a glass kerbside collection service. Moira is budgeting to increase its service charge revenue by 9.8 per cent (\$0.98 million). Moira undertook cost recovery modelling and received external advice from consultants. Council consulted with the community during its Revenue and Rating Plan 2025–29 consultation.

Murrindindi Shire Council

Murrindindi Shire Council introduced a community waste charge of \$149 to recover the costs of rubbish and recycling services and infrastructure that benefits the whole community. Total service charge revenue is budgeted to increase by 8.8 per cent (\$359,000). Murrindindi stated that it conducted surveys in 2022 and 2024 which confirmed general support for the principle that all ratepayers should contribute to the cost of shared waste services.

Northern Grampians Shire Council

Northern Grampians Shire Council introduced a \$52 food organics and garden organics charge, following a free trial run throughout 2023–24. Total service charge revenue is budgeted to increase by 5.2 per cent (\$154,000). Northern Grampians ran a Kerbside Waste and Recycling Survey as part of its review of waste and recycling services across the shire.

Next steps

Updated compliance guidance

We will release an updated annual compliance information template and guidance for councils on complying with the rate cap in early 2026. We will publish this on our website and notify councils by email.

We encourage councils to contact us to discuss any queries regarding the annual compliance information:

- Ph: (03) 9032 1300
- Email: localgovernment@esc.vic.gov.au.

Information for ratepayers

Visit our website for more information on our role under the Fair Go Rates system or to access past compliance reports www.esc.vic.gov.au/local-government.

Appendix A: How average rates are calculated

Base average rate^a

$BAR = R_b/L$ where

- BAR is the base average rate
- R_b is the total annualised revenue leviable from general rates and municipal charges as at 30 June in the base year (2024–25)
- L is the total number of rateable properties as at 30 June in the base year (2024–25)

Capped average rate^b

$CAR = R_c/L$ where

- CAR is the capped average rate
- R_c is the total annualised revenue leviable from general rates and municipal charges as at 1 July in the capped year (2025–26)
- L is the total number of rateable properties as at 1 July in the capped year (2025–26)

^a Section 185B, *Local Government Act 1989*. ^b Section 185C, *Local Government Act 1989*.

Appendix B: Our role in monitoring and reporting compliance

Under section 10E(1)(a) of the *Essential Services Commission Act 2001*, we must monitor and review council compliance with the rate caps set under Part 8A of the *Local Government Act 1989*. Under section 10E(2) of the *Essential Services Commission Act*, we must prepare an annual report on council compliance with the rate caps.

How we assess compliance with the rate caps

To assess council compliance with the rate caps:

1. All councils must submit annual compliance information to us in September each year. This includes the annual compliance information template and rating system reports certified by each council's chief executive officer.
2. We ask each council to explain any differences between the template and rating system reports and any other anomalies.
3. The template uses each council's data to calculate its base average rate, capped average rate and average rate increase (rounded to two decimal places).

Average rate increase = (capped average rate – base average rate) / base average rate x 100

4. We assess whether each council's capped average rate does or does not exceed its base average rate by more than the rate cap.
 - A council is compliant if its capped average rate does not exceed its base average rate by more than the rate cap (i.e. its average rate increase does not exceed the rate cap).
 - A council is non-compliant if its capped average rate does exceed its base average rate by more than the rate cap (i.e. its average rate increase does exceed the rate cap).

We generally consider that non-compliance is 'immaterial' if it is negligible and of no immediate concern.