

Indigo Shire Council

Decision on application for a higher cap 2025–26

14 May 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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Summary

Indigo Shire Council (Indigo) has applied to the Essential Services Commission (the commission) for a higher cap of 7.54 per cent for the 2025–26 financial year. This is 4.54 percentage points above the 3 per cent rate cap set by the Minister for Local Government. Indigo estimates the proposed higher cap would generate \$801,624 extra rate revenue above the minister's cap in 2025–26, which equates to an average increase of approximately \$85.46 per assessment for the 2025–26 financial year.¹

In effect, the proposed increase is a revenue-neutral transfer of uncapped service charge revenue into capped general rates and charges, to comply with ministerial guidelines on service charges.² That is, the \$801,624 increase in rate revenue is equal to the revenue that Indigo will forgo in 2025–26 by removing its Environmental Management Contribution (EMC) charge.³ The total income Indigo raises from its rates, municipal charge and waste levy will therefore be unchanged with or without the higher cap.

Indigo has clarified that if the higher cap application is unsuccessful, it will not forgo this revenue – it will instead recover the \$801,624 by continuing to charge the EMC (in non-compliance with the ministerial guidelines).⁴

We have approved Indigo's proposed higher cap of 7.54 per cent for the 2025–26 financial year

Given that the transfer is revenue-neutral and Indigo does not propose any change to total revenue collected or services delivered as a result of the higher cap, the application has sufficiently demonstrated a long-term need to retain the revenue, and that the higher cap is in the long-term interests of ratepayers and the community.

The financial information provided indicates that Indigo is not able to absorb the \$801,624 it would forgo by removing the EMC without the corresponding increase in its general rate revenue. Without this revenue, Indigo would be unable to maintain its waste and recycling services at the levels supported by its community.

¹ Indigo Shire Council, *Higher cap information template 2025–26*, March 2025. The additional \$801,624 represents 3.86 per cent of Indigo's forecast total revenue.

² The Minister for Local Government's Good Practice Guidelines for Service Rates and Charges, which took effect from 1 March 2024.

³ This amount was calculated by escalating the revenue from this charge in 2024–25 by the minister's rate cap. Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 15.

⁴ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 35; Indigo Shire Council, *Response to request for information*, April 2025, p. 13.

There is evidence the community supports Indigo's proactive approach to waste and recycling, and the services to be funded by the increase in general rates (currently funded through the EMC). Furthermore, during Indigo's consultation process for its 2024–25 budget, it indicated ahead of time its plan to comply with the ministerial guidelines by applying to the commission for a higher cap to transfer the waste charge revenue – no objections were received in relation to this proposal. The commission has not received any submissions on Indigo's higher cap application.

The application demonstrates sufficiently Indigo has taken steps to ensure its waste costs are efficient and its waste services are delivering value for money for ratepayers, and that Indigo has appropriately considered (and rejected) opportunities for reprioritising expenditure and alternative funding options.

We note that Indigo has also considered the distributional impacts of the transfer of revenue from a charge levied per property to a general rate levied according to property value, and has proposed an increase to its municipal charge to minimise this impact.

1. Background

Under the Fair Go Rates system, established under the *Local Government Act 1989* (the Act), councils must limit their average rate increase to a cap set by the Minister for Local Government. The minister set a 3 per cent rate cap for the 2025–26 financial year.

Councils wishing to increase their average rate by more than the minister's cap must get approval from the Essential Services Commission. We assess each council's application and can either approve, approve in part or not approve the higher cap proposed by the council. We may also approve an alternative higher cap, as long as this is not higher than the higher cap proposed by the council. Councils can apply for higher caps for up to four years in the same application.

1.1 Our assessment approach

In assessing whether a higher cap is appropriate, we will have regard to the matters specified in an application (see Box 1.1) and the statutory purposes of the Fair Go Rates system (see Box 1.2).⁵ We will also consider a council's compliance with previous years' rate caps and any directions we have given in relation to the application.⁶ Our integrated approach to assessing whether a higher cap is appropriate is shown in the diagram in Appendix A and our guidance for councils provides further detail.⁷

Having regard to the statutory purposes of the Fair Go Rates system, we generally only consider a higher cap appropriate where a council can demonstrate a long-term funding need that justifies a higher cap, and that the higher cap promotes the long-term interests of ratepayers and the community. We assess this based on the application as a whole, including the responses to all six legislative matters.

We consider whether the application demonstrates that sustainable outcomes in service delivery and critical infrastructure will be achieved by approving a higher cap and how this is in the long-term interests of ratepayers and the community. This may include matters relating to value for money, net impact on ratepayers, ratepayer and community views and outcomes (including relating to services, service levels and infrastructure).

⁵ *Local Government Act 1989* Section 185E(3) and (6); and see section 10E(7) of the *Essential Services Commission Act 2001* which requires the commission to promote the purposes of Part 8A of the *Local Government Act 1989*.

⁶ *Local Government Act 1989* Section 185E(6)(b) and (c).

⁷ Essential Services Commission 2024, *Fair Go Rates system – applying for a higher cap: Guidance for councils 2025–26*, December.

Box 1.1 Six legislative matters an application for a higher cap must specify

- a proposed higher cap for each specified financial year (**‘Proposed higher cap’**)
- the reasons for which the council seeks the higher cap (**‘Reasons’**)
- how the views of ratepayers and the community have been taken into account in proposing the higher cap (**‘Engagement’**)
- how the higher cap is an efficient use of council resources and represents value for money (**‘Efficiency and value for money’**)
- whether consideration has been given to reprioritising proposed expenditure and alternative funding options and why those options are not adequate (**‘Alternative funding and offsets’**)
- that the assumptions and proposals in the application are consistent with the council’s long-term strategy and financial management policies set out in the council’s planning documents and annual budget (**‘Long-term planning’**).

Source: Section 185E(3) *Local Government Act 1989*.

Box 1.2 Purposes of the Fair Go Rates system

The **statutory purposes** of the Fair Go Rates system are:

- to promote the long-term interests of ratepayers and the community in relation to sustainable outcomes in the delivery of services and critical infrastructure, and
- to ensure that a council has the financial capacity to perform its duties and functions and exercise its powers.

Source: Section 185A *Local Government Act 1989*.

1.2 Our guidance to councils

Each year, we publish guidance to help councils plan for and make higher cap applications.⁸ This guidance aims to help councils understand our approach when assessing applications, including:

- the purpose of specifying the information in each legislative matter
- our general and specific expectations for each matter
- the supporting documents that councils could provide in relation to each matter.

⁸ Essential Services Commission 2024, *Fair Go Rates system – applying for a higher cap: Guidance for councils 2025–26*, December.

In our 2025–26 guidance, we also provided supplementary guidance in relation to our expectations specifically for higher cap applications that seek to transfer waste charge revenue. This supplementary guidance is set out in orange break-out boxes throughout our guidance to councils.⁹

While our guidance provides information in general terms about how applications will be assessed, applications are assessed on a case-by-case basis.

1.3 Submissions

The Fair Go Rates system does not prescribe a process for how we should consider submissions from interested parties. Instead, the framework anticipates that councils will engage with their communities before applying and demonstrate in their applications how they have considered those views.

However, because we recognise that interested parties may still want to share their views on a council's application with us, we published Indigo's application and supporting material on our website and invited submissions. We asked that submissions focus on the matters we must have regard to in our assessment. Submissions were open for 30 days.

We did not receive any submissions in relation to Indigo's application.

⁹ Essential Services Commission 2024, *Fair Go Rates system – applying for a higher cap: Guidance for councils 2025–26*, December, pp v, 6, 9, 11, 14, 18, 20, 23, 27, 30, 33 & 37.

2. What did the council apply for and why?

Indigo applied for a higher cap of 7.54 per cent for the 2025–26 financial year. In effect, the proposed higher cap represents a revenue-neutral transfer of \$801,624 in uncapped service charge revenue into capped general rates and charges.

The reason for the higher cap application is ‘to comply with the Minister for Local Government’s Minister’s Good Practice Guidelines for Service Rates and Charges (2023) by transferring the current Environmental Management Contribution to general rates’.¹⁰

The ministerial guidelines, which took effect from 1 March 2024, recommend that community waste services that do not provide a direct benefit to an occupancy should not be funded through service rates or charges, for example, public litter collection, public bins, graffiti removal and street cleaning.¹¹

These guidelines articulate the minister’s view of good practice, 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. However, we note that compliance by a council with a relevant good practice guideline can be used as evidence that the council has complied with the corresponding requirement under the *Local Government Act 2020* or the regulations.¹²

Indigo currently charges an Environmental Management Contribution to fund such community waste services – it seeks to transfer this revenue into general rates to comply with the ministerial guidelines.

Indigo’s application and its responses to our request for information are available on our website (www.esc.vic.gov.au). Appendix B shows our communications with Indigo during the assessment period.

¹⁰ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 16.

¹¹ Department of Government Services, [Minister’s Good Practice Guidelines for Service Rates and Charges](#), December 2023, p. 5.

¹² *Local Government Act 2020* Section 87(3).

3. How we reached our decision

As required under the Fair Go Rates system, we considered the following matters in reaching our decision:¹³

- the statutory purposes of the Fair Go Rates system
- the six legislative matters that the council is required to address in its application
- the council's compliance history in relation to previous rate caps
- the council's compliance with any directions we have given in relation to its application.

Appendix C summarises how Indigo addressed each of the legislative matters in its application and supporting documents.

We took an integrated assessment approach to considering the six legislative matters and the statutory purposes when assessing whether a higher cap was appropriate. These considerations were framed in terms of four questions:

- Is there an underlying financial need (including consideration of the **Proposed higher cap** and the **Reasons** for which it is required)?
- Has the council taken steps to manage the financial need (including consideration of **Efficiency and value for money**, and **Alternative funding and offsets**)?
- Have ratepayer and community views been taken into account (including consideration of **Engagement**)?
- Are plans, policies and processes in place consistent with a need for a higher cap (including consideration of **Long-term planning**)?

We also asked the following two questions:

- Does the council have a satisfactory rate cap compliance history?
- Has the council complied with our directions?

Our consideration of these questions led us to a conclusion about the appropriateness of a higher cap and whether there is a long-term funding need that justifies a higher cap, and whether the higher cap promotes the long-term interests of ratepayers and the community. Our overall assessment approach is consistent with our published guidance for councils (which sets out our

¹³ *Local Government Act 1989* Section 185E(6). If we consider a higher cap is appropriate, we may make a special Order.

assessment approach in further detail, including supplementary guidance in relation to higher cap applications to transfer waste charge revenue).¹⁴

3.1 Is there an underlying financial need?

The application provides evidence that Indigo is not in a financial position to absorb the \$801,624 in revenue that would result from removing the EMC without a corresponding increase in general rates. Indigo's long-term financial plan and financial indicators reflect that it 'does not have excess funds, ongoing surpluses, or available efficiencies that would allow for the removal or reduction of the EMC income'.¹⁵

Without the EMC revenue, Indigo's financial position would deteriorate by approximately \$800k per year (ongoing) – which the application suggests would result in council's available cash reducing to \$0 within a few years.¹⁶

Indigo's key financial performance indicators (including its adjusted underlying result and working capital ratio) reflect its challenges achieving financial sustainability targets (see Appendix D):¹⁷

- adjusted underlying results are forecast to remain between –14 to –20 per cent over the 10-year forecast period
- working capital ratios are forecast to remain below Indigo's target of 150 per cent over the 10-year period.

The application provides evidence that Indigo has considered alternative funding options and offsets, including cuts to waste and recycling services or service cuts and fee increases more broadly.¹⁸ This includes evidence that such cuts would require 'near-complete abolition of all other waste and recycling services' (outside of kerbside waste and recycling services), which Indigo states 'is not a reasonable or viable option' given the service levels demanded by its community.¹⁹

¹⁴ Essential Services Commission 2024, *Fair Go Rates system – applying for a higher cap: Guidance for councils 2025–26*, December.

¹⁵ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 43.

¹⁶ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 43.

¹⁷ Indigo Shire Council, *Higher cap information template 2025–26*, March 2025. Note: given Indigo's stated intention to continue charging the EMC if its higher cap application is unsuccessful, the 'with higher cap' and 'without higher cap' results for Indigo are the same, as total revenue is unchanged.

¹⁸ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 39–42.

¹⁹ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 40.

How did we reach our decision?

The application states that if the higher cap is not approved, ‘then Indigo Shire Council will have no other financially sustainable option than to continue with the Environmental Management Charge under s.162 of the LGA’.²⁰

Based on our analysis, we consider that Indigo is not in the financial position to absorb the loss in EMC revenue, and needs the proposed higher cap to continue providing waste services at the levels required by its community. Given Indigo does not propose any change to total revenue collected or services delivered, the application has sufficiently demonstrated a long-term need to retain the revenue to continue providing waste and recycling services in the long-term interests of ratepayers and the community.

3.2 Has the council taken steps to manage the financial need?

The application sets out Indigo’s internal policies and procedures to ‘ensure lean, value-for-money service delivery to the community’.²¹ These include its regular five-yearly service reviews, annual service plan process structured around the search for efficiencies, Procurement Policy and use of joint tenders.²²

It provides evidence to demonstrate that Indigo ‘has a long history of efficient operations’ – this includes indicators in relation to its lower-income profile and expenses per head of population compared to other councils, and its tight budget and financial position.²³ Value for money in waste and recycling services specifically is demonstrated by evidence of performance results above state and small rural council averages, whilst having below average waste service costs.²⁴

Indigo’s breakdown of waste and recycling costs for the past five years shows that costs of waste and recycling services have grown at a rate significantly higher than the rate cap.²⁵ The response to our request for information (RFI) also provided more insight on how Indigo sets the EMC, with a view to ensure it does not provide a surplus over the long-term, and how Indigo manages the deficit between the EMC and waste cost growth.²⁶

The application demonstrates that Indigo has considered how it will manage waste costs within the rate cap if these costs continue to increase greater than the rate cap, noting the moderate impact

²⁰ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 35

²¹ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 34.

²² Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 34.

²³ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 25.

²⁴ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 31–33.

²⁵ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 33.

²⁶ Indigo Shire Council, *Response to request for information*, April 2025, pp. 1–3.

of capping the limited amount of revenue in question (\$801,264), which Indigo expects it will be able to manage by finding offsetting efficiencies.²⁷

The application also demonstrates how Indigo has considered (and rejected) alternative funding and offsets, including absorbing the lost revenue, reducing waste and recycling services and reducing other services (or increase in fees) across its budget more broadly.²⁸

We consider that Indigo has sufficiently demonstrated that it has appropriate policies and procedures in place to ensure its waste revenue is efficient and value for money, and that it has given reasonable consideration to alternative funding options and how it will manage rising waste costs within the rate cap.

Since the higher cap is revenue-neutral and does not introduce any additional revenue for Indigo, it will need to continue to find efficiencies across its budget to offset its waste and recycling costs increasing above the rate cap.

Consideration of the distributional impact on ratepayers

The application demonstrates that Indigo has given consideration to the distributional impact on ratepayers from transferring revenue from a service charge (based on a per property charge) to general rates (based on property value).²⁹ Indigo proposes that the higher cap would be implemented by increasing the municipal charge (a per property charge) to the maximum of 20 per cent, before adjusting the rate in the dollar to achieve the higher cap.³⁰ By implementing part of the higher cap increase through the per property municipal charge, the application notes that this reduces the distributional impact and achieves a 'more appropriate' distribution.³¹

However, the application notes that Indigo did not seek to remove all distributional impacts, given the ministerial guidelines are deliberate in seeking to transfer waste funding from a per-property basis to a property value basis.³²

The application notes that other mechanisms for smoothing the transition and reducing the distributional impact were also considered, such as spreading implementation over multiple years,

²⁷ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 33–34.

²⁸ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 35–42.

²⁹ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 44–46.

³⁰ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 47.

³¹ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 45–47.

³² Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 44.

or adjustment of differential rates, but these were not considered to be materially beneficial or required to achieve a reasonable distribution.³³

3.3 Have ratepayer and community views been taken into account?

The application provides evidence that ratepayer and community views were sought and considered.

Indigo's consultation with the community centred around two questions:³⁴

1. Does the community want and value the waste services that are funded by the EMC?
2. Should council transfer the revenue from the EMC into general rates via a higher cap application?

The application provided evidence of consultation on the first question in 2019, with a survey that accompanied its Resource Recovery & Waste Management Strategy 2019–2024. Indigo accepted responses for one month, and results indicated that the community was broadly satisfied with the quality of waste services currently funded by the EMC.³⁵

To support this view, the application also noted examples of waste and resource recovery services that 'show that the Indigo Shire community is very supportive of waste and recycling activities and active participants in resource recovery'.³⁶

The community was consulted on the second question as part of the 2024–25 draft budget consultation process. In the draft budget report, Indigo explained its intention to comply with the ministerial guidelines by transferring revenue from the EMC into capped general rates (via a higher cap application to the commission).³⁷

While Indigo did not receive any submissions concerning the higher cap application, it did receive various submissions and council meeting questions regarding the ministerial guidelines and the appropriateness of the EMC, which demonstrates community engagement on the matter.³⁸

Ultimately, despite a lack of community feedback on the plan to apply for a higher cap specifically, the application has sufficiently demonstrated that the waste services funded by the EMC are

³³ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 46.

³⁴ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 18.

³⁵ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 20.

³⁶ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 19.

³⁷ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 22–23.

³⁸ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 21–23.

How did we reach our decision?

valued by the community, and that Indigo provided advanced notice of its plan to apply for a higher cap, receiving no opposition to that proposed plan.

3.4 Are plans, policies and processes in place consistent with a need for a higher cap?

While we found some discrepancies between the figures in the supplied long-term planning information when compared to Indigo's 2024–25 budget and other supporting information, such as Indigo's Long Term Financial Plan, these documents were consistent with Indigo's need to continue recovering the revenue currently recouped through the EMC.³⁹

The application demonstrates that Indigo 'does not have excess funds, ongoing surpluses, or available efficiencies that would allow for the removal or reduction of the EMC income' and that without the EMC revenue, its financial position would deteriorate.⁴⁰ This is reflected in Indigo's long-term financial plan and financial indicators, in particular council's forecast ongoing negative adjusted underlying result and working capital ratio.⁴¹

Note: Indigo's financial indicators are unchanged between the 'with higher cap' and 'without higher cap' scenarios, given Indigo's revenue will be unchanged. If Indigo were to discontinue the EMC without a corresponding increase in general rates to offset the lost revenue, Indigo's financial indicators going forward would deteriorate further.

Given that the transfer is revenue-neutral and Indigo does not propose any change to total revenue collected or services delivered as a result of the higher cap, the application sufficiently demonstrates the need for Indigo to retain this revenue currently recovered through the EMC.

3.5 Does the council have a satisfactory rate cap compliance history?

Indigo has not applied for a higher cap in the past and has complied with the rate cap set by the Minister for Local Government in each year since the Fair Go Rates system was introduced.

3.6 Has the council complied with our directions?

The commission did not issue any formal directions in relation to Indigo's application.

³⁹ Indigo explains the discrepancy in figures between documents is due to using more recent and updated information available to council during the development of its 2025–26 budget. See: Indigo Shire Council, *Response to request for information*, April 2025, pp. 11–12.

⁴⁰ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 43.

⁴¹ Indigo Shire Council, *Higher cap information template 2025–26*, March 2025.

The application was submitted in the manner and form set out in our published guidance.⁴² Indigo also provided us with information considered relevant to the application (consistent with our guidance) and complied with all requests for further information.

3.7 Our decision

In accordance with section 185E(6), the commission is satisfied that the higher cap proposed by Indigo Shire Council is appropriate having regard to:

- the six legislative matters specified in section 185E(3) of the Act
- whether the directions given under section 185E(5) have been complied with
- the council's compliance history in relation to previous rate caps
- the statutory purposes of the Fair Go Rates system.

The commission has decided to make a special Order for a higher cap of 7.54 per cent (comprising the 3 per cent average rate cap set by the minister plus an additional 4.54 percentage points) for the 2025–26 financial year.

⁴² Essential Services Commission 2024, *Fair Go Rates system – applying for a higher cap: Guidance for councils 2025–26*, December.

Appendix A: Our integrated assessment approach

Legislative purpose and ESC objectives	Financial capacity of council to perform its duties and functions and exercise its powers s 185A(b)					Long-term interests of ratepayers and community relating to sustainable outcomes in services and infrastructure. s 185A(a)					
What should be demonstrated	Long-term funding need consistent with long-term interests of the ratepayers and community for sustainable outcomes in services and infrastructure.										
Key questions	1. Is there an underlying financial need?					2. Has the council taken steps to manage the financial need?		3. Have ratepayer and community views been taken into account?		4. Are the plans, policies and processes in place consistent with a long-term funding need?	
Legislative matters	Proposed higher cap and reasons specified s 185E(3)(a)–(b)					Efficiency, value for money s 185E(3)(d)	Alternative funding and offsets s 185E(3)(e)	Engagement s 185E(3)(c)		Long-term planning s 185E(3)(f) s 185E(3)(c)–(e)	
How it can be demonstrated	LGPRF Financial indicators (historical and projected) particularly the Adjusted Underlying Result	LGPRF Financial indicators (historical and projected) and VAGO historical performance	Higher cap information template	Relevant asset management plans if applying for renewal, upgrade or expansion	Relevant service level data if applying to increase services or improve service levels	Records of efforts to: reduce costs, align services with community's views, dispose of unwanted assets, ensure effective procurement and tendering	Evidence that council has explored other options such as alternative funding or service delivery and reasons why higher cap is most appropriate. This should include consideration of ratepayer affordability.	How the council engaged with community and what information was provided	How the council took account of views and dealt with unmet expectations	Need for higher cap consistently demonstrated in council long-term plans, including financial plans, council plan, asset management plan, revenue & rating plan.	

Appendix B: Summary of communications with Indigo Shire Council

Indigo Shire Council (Indigo) submitted its application for a higher cap on 27 March 2025. In response to its application, we sought additional information from the council. Indigo's application and its responses to our requests for further information can be found on our website.

Table B1 Communications between Indigo and the commission

Date (2025)	Nature of communication
27 March	Indigo submitted its application
10 April	We issued Indigo a request for further information (RFI)
10 April	Indigo sent a query about confidentiality in relation to the RFI
10 April	We responded to Indigo's query about confidentiality
22 & 23 April	We sent a follow-up email on the timing of Indigo's RFI response
23 April	Indigo provided an update on the timing of its RFI response
24 April	Indigo sent its response to our RFI
24 April	We confirmed receipt of Indigo's RFI response
30 April	We sent a follow-up email in relation to an attachment missing from the RFI response
30 April	Indigo provided the requested attachment (on a confidential basis)
1 May	We provided an update to Indigo on the timeline of the assessment

Appendix C: Summary of legislative matters

This appendix summarises how Indigo Shire Council (Indigo) addressed each of the legislative matters in its application and supporting documents.

185E(3)(a) — proposed higher cap

Indigo applied for a higher cap of 7.54 per cent for the 2025–26 financial year. This is 4.54 percentage points above the rate cap set by the Minister for Local Government. The application indicates that the proposed higher cap would generate \$801,624 more in rate revenue in 2025–26 than would be generated through the minister’s cap alone.⁴³ This represents, on average, an additional \$85.46 per rateable assessment.⁴⁴

The proposed increase is a revenue-neutral transfer of service charge revenue into capped general rates and charges. That is, the \$801,624 increase in rate revenue is equal to the revenue that Indigo will forgo in 2025–26 by removing its Environmental Management Contribution (EMC) – calculated from the 2024–25 revenue, escalated by 3 per cent (in line with the minister’s rate cap).⁴⁵ The total income from rates, municipal charge and waste levy will therefore be unchanged.

Indigo has stressed that if the higher cap application is unsuccessful, it will not forgo this revenue – it will instead recover the \$801,624 by continuing to charge the EMC (in non-compliance with the ministerial guidelines).⁴⁶

185E(3)(b) — reason(s) for which the council seeks the higher cap

The stated reason for the higher cap application is ‘to comply with the Minister for Local Government’s Minister’s Good Practice Guidelines for Service Rates and Charges (2023) by transferring the current Environmental Management Contribution to general rates’.⁴⁷

The additional rate revenue is intended to fund specific expenditure, namely public bins, street sweeping, hard waste collection, regional waste group costs, landfills, transfer stations, management and corporate overhead, and event waste management.⁴⁸ This represents a

⁴³ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 15.

⁴⁴ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 15.

⁴⁵ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 15.

⁴⁶ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 35; Indigo Shire Council, *Response to request for information*, April 2025, p. 13.

⁴⁷ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 16.

⁴⁸ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 13.

continuation of existing services at existing service levels. The only material change is that the revenue will come from capped rate revenue rather than uncapped service charge revenue.

The application states that if the higher cap is not approved, ‘then Indigo Shire Council will have no other financially sustainable option than to continue with the Environmental Management Charge under s.162 of the Act’.⁴⁹

185E(3)(c) — how the views of ratepayers and the community have been taken into account in proposing the higher cap

The application sets out relevant engagement in relation to the higher cap that occurred as part of the consultation process for its 2024–25 budget. The ministerial guidelines were referenced in questions received at council meetings in relation to the EMC, and in Indigo’s draft budget report.⁵⁰ The draft budget report went on to propose Indigo’s plan to comply with the ministerial guidelines by applying to the ESC for a higher cap in the following year.⁵¹ The draft budget was publicised through various channels (including newspaper advertisements, council’s website, council’s weekly community email and Facebook page), and no objections were received in relation to this proposal – which was subsequently endorsed by the adopted budget.⁵²

The application notes that the budget process ‘provided a timely and appropriate opportunity for the Indigo Shire Community to be consulted about the proposal to transfer the Environmental Management Contribution to general rates’.⁵³

Evidence is also provided more broadly in relation to the community’s support for the current level of Indigo’s waste and recycling services. The application notes a survey conducted during the development of its Resource Recovery & Waste Management Strategy (2019–2024). It provides examples of high-scoring results in relation to services currently funded by the EMC, which ‘demonstrates strong community support for these activities and shows that they are demanded by the community and not optional’.⁵⁴

The application also sets out a number of examples of waste and resource recovery services that to some extent may ‘show that the Indigo Shire community is very supportive of waste and

⁴⁹ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 35

⁵⁰ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 21.

⁵¹ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 21–22.

⁵² Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 22–23.

⁵³ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 23.

⁵⁴ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 20.

recycling activities and active participants in resource recovery'.⁵⁵ This includes the introduction of compulsory green organics in 2015, and introduction of a PlasticWise Policy in 2018 and commencement of a soft plastics recycling trial.⁵⁶ The application also notes Indigo's significantly above average result in proportion of waste diverted from landfill, to evidence that 'the high uptake of green and hard recycling is a strong indication of the commitment of Indigo Shire residents to waste management'.⁵⁷

185E(3)(d) — how the higher cap is an efficient use of council resources and represents value for money

The application sets out indicators from the Local Government Performance Reporting Framework to demonstrate that Indigo 'has a long history of efficient operations' and is unable to absorb the revenue lost from removal of the EMC. This includes Indigo's lower income profile and its lower expenses per head of municipal population compared to other councils, its increasing depreciation and approach to asset renewal, and its tight budget and financial position.⁵⁸

The application notes that Indigo has several internal systems to ensure lean, value-for-money service delivery to the community. These include regular 5-yearly service reviews (noting that its last waste service review in June 2020 found that the waste service is operating efficiently and effectively), annual service plans that target cost growth below the rate cap (as a way of subsidising high growth areas), and Indigo's Procurement Policy (as evidenced by the its joint tender for waste services in 2023).⁵⁹

The application demonstrates value for money by noting that Indigo is a leader in waste and recycling services and achieves performance targets above state and small rural council averages (e.g. 'Kerbside waste diverted from landfill' significantly higher than state and small rural council averages), while at the same time has below average waste service costs (cost of kerbside garbage collection and kerbside recycling collection both below average for small rural councils).⁶⁰

⁵⁵ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 19.

⁵⁶ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 18–19.

⁵⁷ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 18.

⁵⁸ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 25–31.

⁵⁹ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 34.

⁶⁰ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 31–33.

The application attributes this to Indigo’s deliberate strategy of minimising waste, providing an appropriate service level, and driving down costs, as well as its joint tender with five other regional councils for waste services keeping waste service costs to a low level.⁶¹

The application provides a breakdown of waste and recycling costs for the past 5 years, noting that costs of waste and recycling services have grown at a rate significantly higher than the rate cap.⁶² It also considers how Indigo will manage these waste costs within the rate cap if they continue to increase greater than the rate cap. However, given the moderate impact of capping the limited amount of revenue in question (\$801,264) – Indigo expects it will be able to manage this impact by finding offsetting efficiencies.⁶³

185E(3)(e) — whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate

The application sets out the consideration (and rejection) of alternative funding and offsets:

- Indigo is unable to absorb the \$801,624 of lost revenue, especially ‘in the current environment of declining financial sustainability that is being faced by all Victorian councils’.⁶⁴
- Reduction in services is not a realistic option, as almost all waste and recycling services outside of kerbside collection would need to be cut (unacceptable to the community).⁶⁵
- Reduction in other services (or increase in fees – which would also cause distributional impacts) are not a viable alternative to a higher cap or continuation of the EMC.⁶⁶

The application also sets out why Indigo considers the EMC to be a legal and transparent option that is authorised by section 162 of the Act, noting that the ministerial guidelines are ‘not mandatory and are not enforceable’.⁶⁷ Hence Indigo suggests that continuing to charge the EMC is the ‘fall-back’ position, should its application for a higher cap be unsuccessful (which Indigo reiterated and emphasised in its response to our RFI).⁶⁸

⁶¹ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 31–34.

⁶² Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 33.

⁶³ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 33–34.

⁶⁴ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 36–39.

⁶⁵ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 39–40.

⁶⁶ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 40–42.

⁶⁷ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 35.

⁶⁸ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 35; Indigo Shire Council, *Response to request for information*, April 2025, p. 13.

Consideration of the distributional impact on ratepayers

The application also demonstrates that Indigo has given consideration to the distributional impact on ratepayers from transferring revenue from a service charge (based on a per property charge) to general rates (based on property value).⁶⁹ To reduce this distributional impact and achieve a reasonable distribution, Indigo proposes that the higher cap would be implemented by increasing the municipal charge (a per property charge) to the maximum of 20 per cent, before adjusting the rate in the dollar to achieve the higher cap.⁷⁰ However, the application notes that Indigo did not seek to remove all distributional impacts, given the ministerial guidelines are deliberate in seeking to transfer waste funding from a per-property basis to a property value basis.⁷¹

The application notes that other mechanisms for smoothing the transition and reducing the distributional impact were also considered (such as spreading implementation over multiple years or adjustment of differential rates), but these were not considered to be materially beneficial or required to achieve a reasonable distribution.⁷²

185E(3)(f) — that the assumptions and proposals in the application are consistent with the council's long-term strategy and financial management policies set out in the council's planning documents and annual budget

The application notes that Indigo ‘does not have excess funds, ongoing surpluses, or available efficiencies that would allow for the removal or reduction of the EMC income’ and that without the EMC revenue, its financial position would deteriorate by approximately \$800k per year (ongoing).⁷³ This would mean a deficit of over \$8 million over a 10-year planning horizon – which the application suggests Indigo has no ability to absorb or save over the next ten years, resulting in council’s available cash reducing to \$0 within a few years.⁷⁴

This is reflected in Indigo’s long-term financial plan and financial indicators, in particular Indigo’s forecast ongoing negative adjusted underlying result.⁷⁵ Note: Indigo’s financial indicators are unchanged between the ‘with higher cap’ and ‘without higher cap’ scenarios, given Indigo’s

⁶⁹ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 44–46.

⁷⁰ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, pp. 45–47.

⁷¹ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 44.

⁷² Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 46.

⁷³ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 43.

⁷⁴ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 43.

⁷⁵ Indigo Shire Council, *Higher cap information template 2025–26*, March 2025.

revenue will be unchanged (due to continuing to charge the EMC if its higher cap application is unsuccessful).⁷⁶

⁷⁶ Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 35; Indigo Shire Council, *Response to request for information*, April 2025, p. 13.

Appendix D: Financial indicators

This Appendix shows the key financial indicators under the two different forecast scenarios included in the financial model submitted with Indigo's application:⁷⁷

- 'with higher cap' – the financial indicators reflect an additional \$801,624 in rates revenue in 2025–26 included in the forecasts⁷⁸
- 'without higher cap' – the financial indicators reflect forecasts of rate revenue based on the minister's cap and reflect the continuation of the Environmental Management Contribution (EMC).⁷⁹

For the purposes of Indigo's higher cap application, the two scenarios are the same. Indigo is proposing to transition \$801,624 from service charge revenue to general rates and municipal charge revenue. There is no change to total revenue.

In examining Indigo's financial position, we have looked at key financial indicators that are included in the Local Government Performance Reporting Framework (the framework).⁸⁰

The framework previously specified targets for each indicator. Councils are now required to set their own targets. Indigo indicated that it has adopted the Victorian Auditor-General's Office's (VAGO) previous target ranges and aims to operate within the target ranges included under each of the figures below.⁸¹

Adjusted underlying result

The adjusted underlying result is defined as the adjusted underlying surplus (or deficit) as a percentage of adjusted underlying revenue, where:

- adjusted underlying surplus is adjusted underlying revenue less total expenditure
- adjusted underlying revenue is total income less non recurrent capital grants used to fund capital expenditure, non-monetary asset contributions and other contributions to fund capital expenditure.

⁷⁷ Indigo Shire Council, *Higher cap information template 2025–26*, March 2025.

⁷⁸ The higher cap will result in a permanent increase to the rate base.

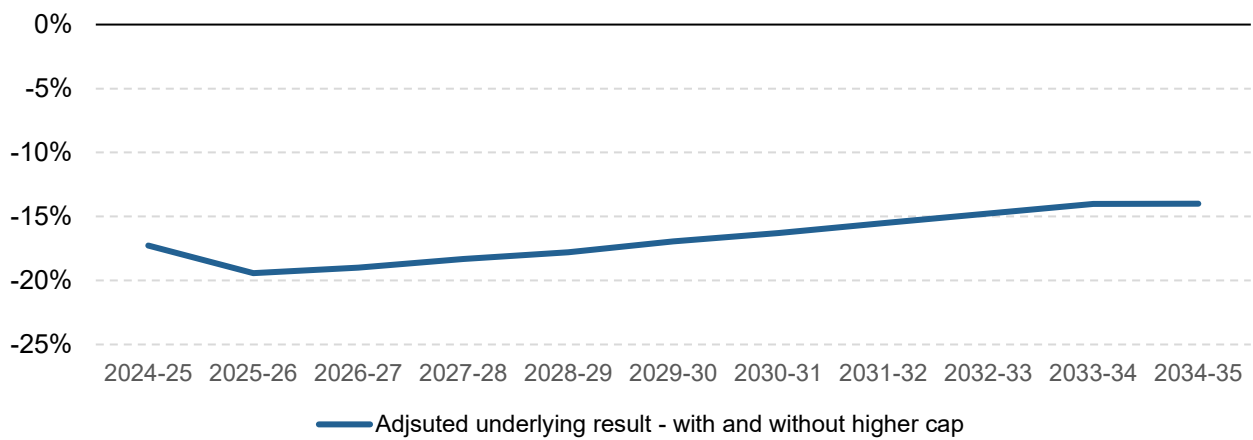
⁷⁹ Indigo has indicated that if its higher cap application is not successful, it intends to continue charging the Environmental Management Contribution. See: Indigo Shire Council, *Higher cap application 2025–26*, March 2025, p. 35; Indigo Shire Council, *Response to request for information*, April 2025, p. 13.

⁸⁰ See <https://www.localgovernment.vic.gov.au/strengthening-councils/performance-reporting> for more details.

⁸¹ Indigo Shire Council, *Ten Year Financial Plan 2024–25 to 2033–34*, p. 27.

Indigo's Financial Plan states that its intention is to maintain a low to medium risk against VAGO's previous target bands. This means the target for this indicator is a result greater than 0 per cent.

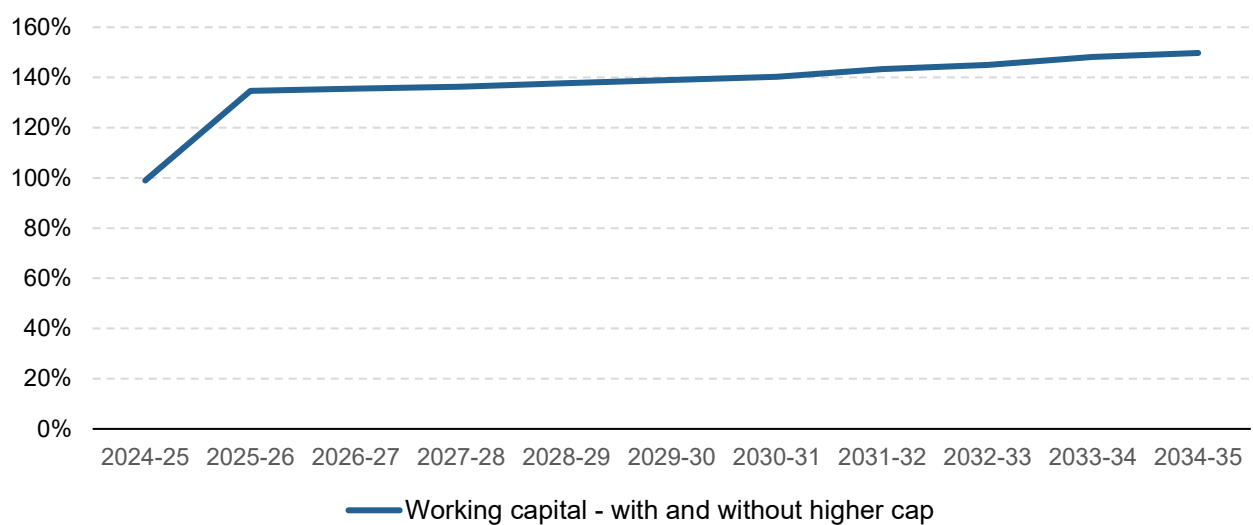
Figure D1 Indigo's forecast adjusted underlying result



Working capital ratio

The working capital ratio is defined as current assets as a percentage of current liabilities. Indigo set a target of 150 per cent for this indicator in their 2024–25 adopted budget.⁸²

Figure D2 Indigo's forecast working capital ratio



⁸² Indigo Shire Council, *Adopted Budget 2024–25*, p. 59.

Indebtedness ratio

The indebtedness ratio is defined as non-current liabilities as a percentage of own source revenue where:

- non-current liabilities are those that are not due for settlement within 12 months after the reporting period
- own source revenue is rates and charges plus user fees, statutory fees and fines and other minor revenues.

Indigo's Financial Plan states that its intention is to maintain a low to medium risk against VAGO's previous target bands. This means the target for this indicator is a result below 60 per cent.

Figure D3 Indigo's forecast indebtedness ratio

