

# 2025 Statutory Review of the Local Government Rate Cap Mechanism

Submission by Rural Councils Victoria, 12 September 2025

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## About Rural Councils Victoria

Rural Councils Victoria (RCV) is an incorporated body representing 35 rural councils across country Victoria.

Our focus is on issues relevant to smaller rural areas, many of which are isolated or sparsely populated.

Unfortunately, we were not invited to meet and discuss the discussion paper, which we believe is a missed opportunity. Additionally, the short submission timeframe — coinciding with the busy year-end reporting period for Councils — is disappointing and likely to limit the depth of feedback provided.

Our members' experiences will also reflect those of many smaller rural and remote areas of Australia. One in nine Victorians live in rural communities and are served by a rural council.

In Victoria, 38 of the 79 councils are classified as 'rural', including a number on the urban fringe.

Victoria's rural councils are responsible for 79% of Victoria's land area and have a combined population of approximately 836,000 (ABS 2020) accounting for 12.5% of Victoria's population and 62% of Victoria's local roads network.

The impact of a dispersed and small population spread over a large geographic area presents several challenges for rural councils in meeting the needs of their communities. Not least being that rural councils have small rate bases and little access to substantial or helpful levels of 'own source' income.

Despite these challenges rural Victoria is a significant contributor to the national economy. Recent statistics shared by Agriculture Victoria highlight this:

- Victoria's gross value of agriculture production (GVAP) reached a new record high of \$20.2 billion in 2021–22.
- In 2021–22, Victoria accounted for 23 per cent of Australia's GVAP, making Victoria Australia's second largest agricultural producer after New South Wales (26%)

## Overview

The financial sustainability of local government is a pressing issue for our membership.

We acknowledge that the Government's policy of limiting Local Government rate increases is outside the scope of this review. Nonetheless, multiple reports, including the recent State

Parliament inquiry, have highlighted significant concerns regarding the current and future financial sustainability of the sector.

Over many years, local governments across the country have been facing a situation where their capacity to raise revenue is not matching the expectations and needs of their communities.

Recently this has intensified with many rural councils facing multiple pressures.

These pressures include: changing populations with increased service needs; ageing facilities that require updating; the pressure of natural disasters and inflationary pressures rapidly pushing up construction and maintenance costs.

Rural Victoria is an amazing place to live, work and visit and we need to ensure that councils have the resources to keep communities, of all sizes, vibrant and thriving.

We are encouraged by recent statements from the Local Government Minister recognising the importance of reviewing the rate cap, and by the commitment to seek greater fairness and flexibility for all Councils.

### ***The financial sustainability and funding of local government***

In a survey undertaken by us in 2024 of our members, when asked to reflect on their top 5 funding challenges, the most common top ranking issue was the current **rate-capping** policy of the state government. The second most common top funding challenge was *'increased expenditure demands for infrastructure'* and *'limited revenue sources'*.

Across all ranking levels, the issue that was selected the most was *'increased expenditure demands for infrastructure'*, followed by *'limited revenue sources'*.

This demonstrates that councils are being squeezed from both directions, with increased demand for infrastructure spending, amplified by the rising cost of roads, materials and maintenance coupled with limited avenues to raise any additional revenue.

### **Responding to the Terms of Reference**

We provide the following as insights, and comments to assist in the review:

- Rates are a critical revenue source for Local Governments, but reviewing only rating revenue is insufficient. A full review of overall Local Government revenue is needed, especially since their share of total tax revenue is declining relative to State and Federal Governments.
- The final report should contain a comprehensive analysis of annual adjustments to the rate cap, service charges, and the Fire Services Levy (now referred to as the Emergency Volunteers Support Fund Levy), in order to provide complete transparency to ratepayers, since these levies appear on annual rate notices. One of the original policy aims was to contain 'escalating costs for all ratepayers. The State Government ESVF levy, which has been increased from the FSPL and is collected through Council rate notices, differs from the policy aims of the State's rate cap legislation and also unfairly assigns Councils the role of collecting this tax on behalf of the State Government.

- A Local Government Cost Index (LGCI) could provide an accurate measure of the expenses incurred by Councils, including those associated with labour, capital works, and changing legislative requirements. A LGCI would be a more appropriate rate cap.
  - The current method for setting the rate cap in Victoria relies heavily upon the Melbourne CPI, which ESC has stated does not reflect the cost factors of local government. ESC has also stated that the historical gap between the rate cap applied based on the forecast of the Melbourne CPI and the actual increase in costs has potential to present major cost pressures on councils going forward.
  - Annual feedback from the sector should be a key consideration of the cost index.
  - The limited capacity of rural Councils to generate alternative revenue needs to be a consideration.
- Different rate cap levels could be allowed for each Council type, considering rural cost pressures, but must also reflect community ability to pay so rural areas are not disproportionately impacted.
- Councillors and communities have a better grasp of the rate cap, but confusion persists due to annual property valuations and the unclear link between the rate cap and actual Council rates. We urge the State Government to improve communication about annual revaluations.
- As highlighted in the discussion paper, the rate cap does not apply to service charges such as waste charges. This exemption is critical, as the cost of providing these services is unrelated to the rate cap.
- The paper also notes that “spending on capital works has grown significantly over time, averaging 7.2% growth.” It is important to acknowledge that construction costs have also risen rapidly during this period, likely leading to diminished infrastructure quality.
- The rate cap variation submission process itself can be time-consuming, and simplification — especially for rural councils with limited capacity should be considered.
- The Victorian Government’s rate cap has curbed rising costs for ratepayers, but it is crucial to consider the potential impact on services and capital investments as Councils cut back and reassess priorities.
- The determination of the Annual Rate Cap should be finalised no later than December 31st, in line with Council budget cycles.

Thank you again for the opportunity to provide input. We look forward to considering the review’s findings and remain available for further discussion.