

# 2025 Statutory Review of the Local Government Rate Cap Mechanism

Discussion Paper

13 August 2025



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Our vision is to be Australia's most trusted economics, policy and strategy advisory firm. We are committed and passionate about providing rigorous independent advice that contributes to a better world.

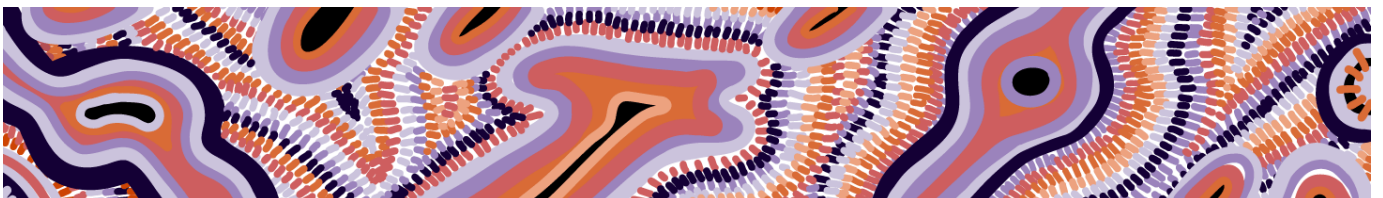
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Goomup, by Jarni McGuire

# Overview and Providing a Response

*This section provides an introduction to the 2025 Statutory Review of the Local Government Rate Cap Mechanism, the review process, and this Discussion Paper.*

## The 2025 Local Government Rate Cap Mechanism Review

In 2016, the Victorian Government introduced rate capping to restrict the amount that councils can raise their rates each year. The Minister for Local Government is responsible for setting the annual rate cap.

The legislative mechanism for the rate cap is set out in Part 8A of the Local Government Act 1989 (the Act). Section 185G of the Act states that the Minister for Local Government and the Minister administering the Essential Services Commission Act 2001 (the Minister for Finance) must ensure a review of Part 8A of the Act is completed by 31 December 2021 and every four years thereafter.

The Hon Nick Staikos MP, Minister for Local Government and the Hon Danny Pearson MP, Minister for Finance have approved the Terms of Reference (ToR) for the 2025 Rate Cap Mechanism Statutory Review (the RCM Review). The Scope of the Review is provided below, with the full ToR (including matters deemed out of scope, consultation, and reporting) are provided in the Appendices.

Figure 1 Review Terms of Reference (Scope of the Review)

### Scope of the Review

The Review is required to consider the following (as per s 185G of the Act):

- whether the mechanism for setting a cap on rates set out in Part 8A of the Act is still appropriate, and
- whether Part 8A of the Act is effective or needs to be amended.

The 2025 review will examine:

- Whether the rate cap has achieved its original policy aims to:
  - contain escalating costs for all ratepayers, and
  - strengthen rating discipline and transparency (by councils).
- The effect of the rate cap on councils' financial planning and management practices.
- Determining and substantiating any barriers to councils seeking a higher rate cap via application to the ESC.

The review is to make findings on the above and any recommendations as considered appropriate.

Source: DGS

Importantly, **the Victorian Government's overarching policy of limiting Local Government rate increases** is out of scope and is not part of the RCM Review.

The ToR require the review to include consultation with relevant stakeholders and the production of a final report by December 2025. Information regarding the 2025 review is available on the Local Government Victoria website at <https://www.localGovernment.vic.gov.au/our-programs/council-rates-and-charges>.

The Department of Government Services (DGS) has administrative responsibility for delivery of the RCM Review. The Review itself, including research, stakeholder consultation and analysis, is being completed by ACIL Allen, an independent economics, public policy and strategy advisory firm.

## About ACIL Allen

ACIL Allen has been engaged by DGS to complete the 2025 RCM Review on an independent, arms-length basis from the Department and the broader Victorian Government. Dr Jerome Fahrer and Dr Matt Butlin AM, two of ACIL Allen's most senior economists and public policy thinkers, are leading the Review, supported by a team of experienced economists and analysts.

In delivering the Review, ACIL Allen is making use of a range of stakeholder engagement and analytical techniques, including but not limited to:

- Seeking submissions from all interested parties to a public Discussion Paper (this document)
- Seeking input from all ratepayers via a short online survey
- Targeted<sup>1</sup> bilateral stakeholder consultation with sector representative organisations and select Victorian Government Departments
- Analysis and modelling of financial data and outcomes in the Local Government sector
- Other desktop analysis and assessment tools as appropriate to respond to the Terms of Reference.

ACIL Allen will undertake the Review at arms-length of DGS, meaning all direct materials, submissions and commentary provided as part of the Review will only be available to ACIL Allen. ACIL Allen's report will be provided to DGS and the responsible Ministers at the conclusion of the Review, at which time the Victorian Government will prepare a response to any findings and recommendations made.

Further information can be found at <http://www.acilallen.com.au/rcmreview2025>.

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<sup>1</sup> Due to time and scope limitations for the Review, direct stakeholder meetings are limited to representative organisations. Individual Local Government Authorities are encouraged to provide a written submission, respond to the survey, and / or engage with their representative organisations to provide input into the Review.

## Providing a Response

This **Discussion Paper** provides further guidance beyond the Terms of Reference through a series of questions designed to capture broad perspectives on the RCM and its impacts over the last ten years. You are encouraged to read the Discussion Paper and prepare a written response which addresses some or all of the questions as appropriate, providing evidence and anecdotes to support your views as necessary.

A direct **Response Template** is available on the ACIL Allen RCM Review landing page. Alternatively, please provide a response in a format of your choosing with direct reference to the questions as they have been numbered in the remainder of the paper.

Submissions should be emailed to [RCMReview2025@acilallen.com.au](mailto:RCMReview2025@acilallen.com.au), with your organisation's name clearly identified in the email and document title. All responses to the Discussion Paper will remain confidential and will not be provided to DGS or made public. We encourage frank and open engagement, and are seeking input which will provide our team with the evidence base required to address the Review's Terms of Reference.

Submissions close on 12 September 2025. **No extensions to this date will be available, due to the time available to complete the Review.** If you are not in a position to prepare a response to the Discussion Paper we encourage you to consider completing a response to the Short Survey, which provides open ended questions and opportunities for free text input.

If you have any questions, queries or concerns please reach out to ACIL Allen's Project Manager Ryan Buckland via the [ACIL Allen RCM Review 2025 mailbox](#).

# 1 Sector Wide Perspectives

*This section provides a series of questions centred on broad trends in the Local Government sector in Victoria, and seeks input on the general understanding and awareness of the RCM.*

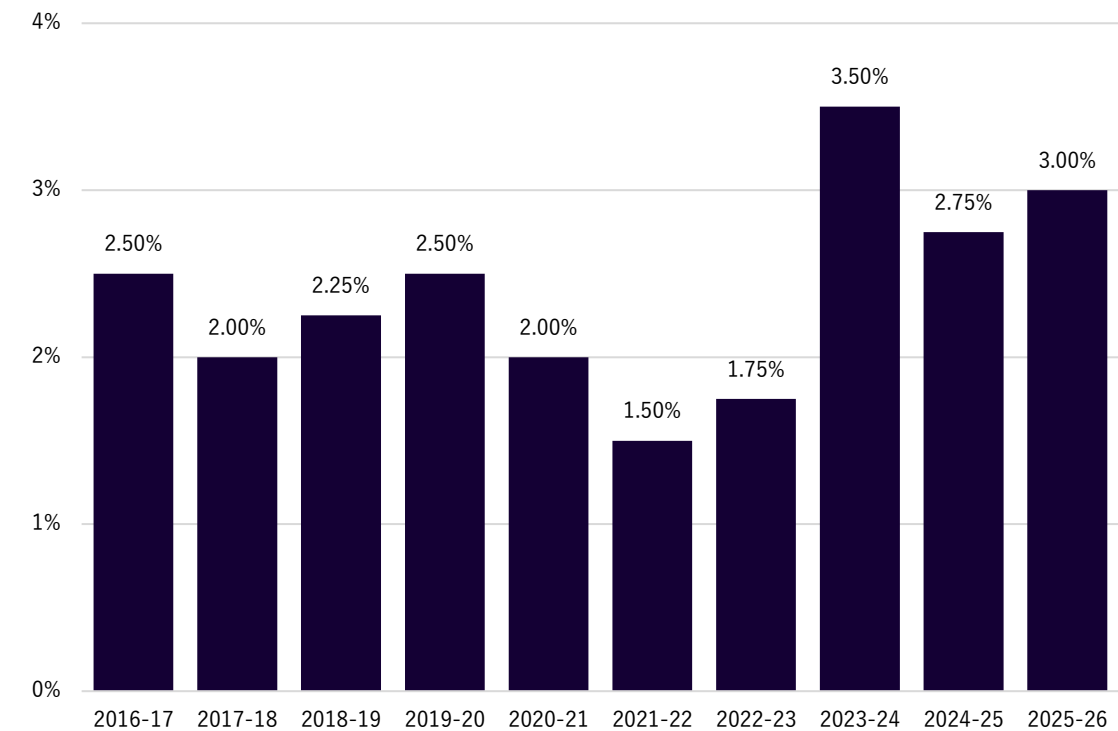
## 1.1 Trends in Local Government in Victoria

### The Rate Cap Mechanism

The current Rate Cap Mechanism (RCM) was introduced by the Victorian State Government in 2016, with the aim of reducing upward pressure on rates and municipal charges faced by Victorian ratepayers. The RCM is expressed as a percentage increase.

It works by limiting how much a council can increase its average rates in a given year, with the applicable caps shown in **Figure 1.1**. “Average rates” refers to the rates paid by the notional average ratepayer, and is calculated by dividing the total revenue from general rates and municipal charges by the number of rateable properties. It 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 Property Levy.

Figure 1.1 Annual council rate caps



Source: Essential Services Commission

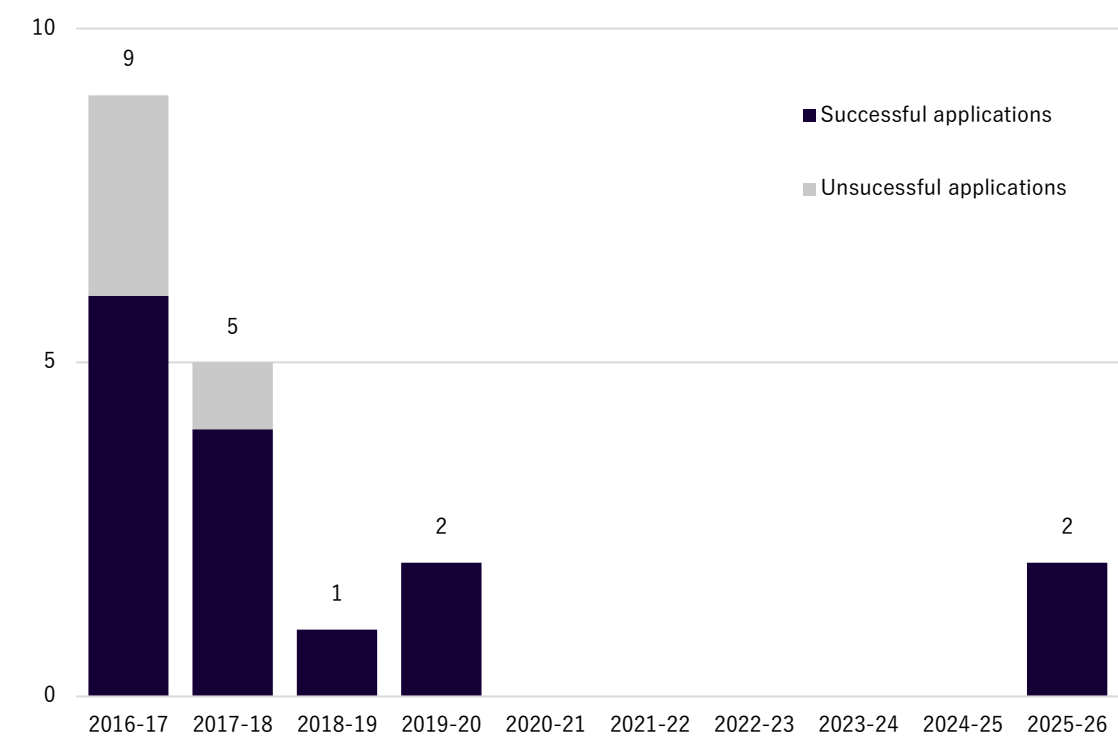
Since the rate cap calculation is based on the increase in average rates, this means that a council can comply with the rate cap even if individual ratepayer experiences increases in their rate notices that are higher than the rate cap.

Each year, the Minister for Local Government sets the rate cap, taking into account advice from the Essential Services Commission (ESC), which the Minister has typically accepted. Historically, a uniform rate cap has been applied to all 79 councils, although the legislation does allow for variations, including different rate caps for groups of councils or individual councils.

Since 2020-21, the ESC’s advice has been to set the rate cap based on forecast Consumer Price Index (CPI) for the forthcoming year. Prior to this, the advice was based on a weighted average of CPI and Wage Price Index, with an efficiency factor applied in some years.

Councils can apply to the ESC for a higher cap if they can demonstrate community support and a critical need for spending on services or projects that require a rate rise above the capped amount. While there was a spate of higher applications in the early years of the scheme, such requests have been rare. Two councils submitted higher cap applications for the 2025-26 rates year, and were successful in their applications.

Figure 1.2      Number of higher cap applications



Source: Essential Services Commission

The ESC monitors council compliance with the rate cap (or higher cap, where relevant) on annual basis. There have been no instances of non-compliance in recent years. The most recent occurrence was in FY21, where 3 councils were found to be ‘immaterially non-compliant’ – meaning the non-compliance is negligible and of no immediate concern. The last instance of ‘material non-compliance’ occurred in FY19.

Discussion Questions

Section 1.1: Sector Wide Perspectives

1. From your perspective as a member of the Local Government sector, is the Rate Cap Mechanism (RCM) generally well understood by your stakeholders and constituents? What leads you to form this view?

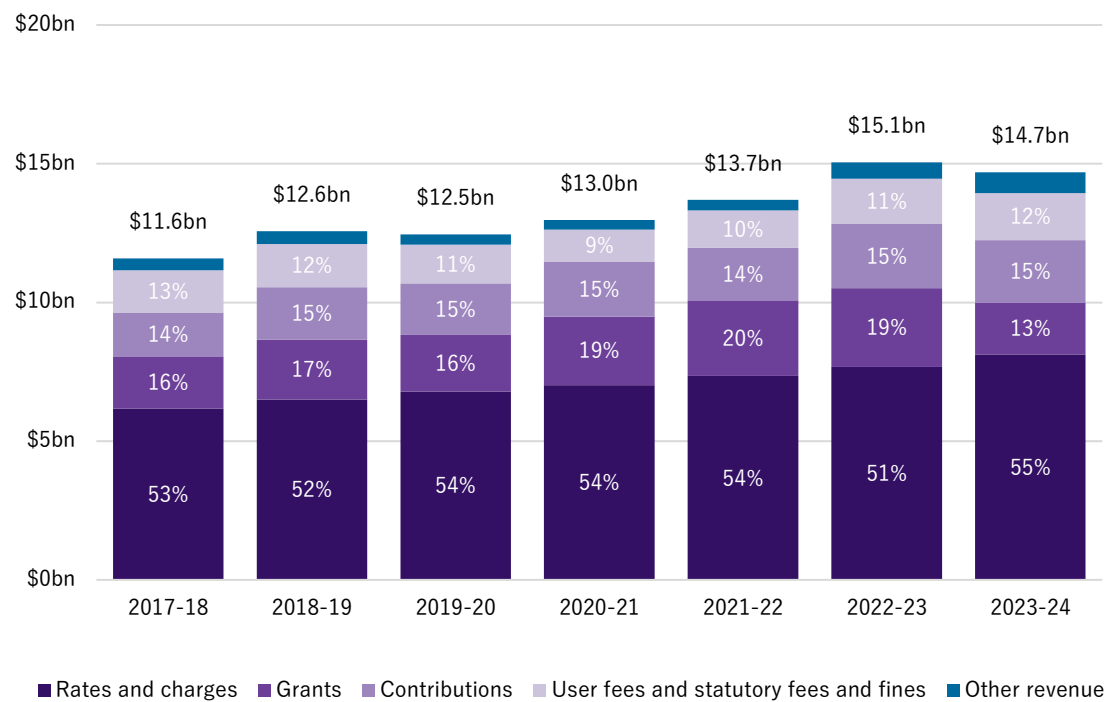


## 1.2 Sector Financial Trends

### Revenue

Total Local Government revenue has continued to grow since the introduction of rate capping, increasing at an average rate of 4% per annum. Rates and charges are the backbone of council finances, making up more than half of total revenue. It is also the main driver of revenue growth for councils, increasing at around 4.7% annually. The composition of revenue across the Local Government sector between 2017-18 and 2023-24 as captured by the Victorian Auditor General's Office (VAGO) is presented below (Figure 1.3).

Figure 1.3 Local Government Sector: Council revenue by VAGO line item



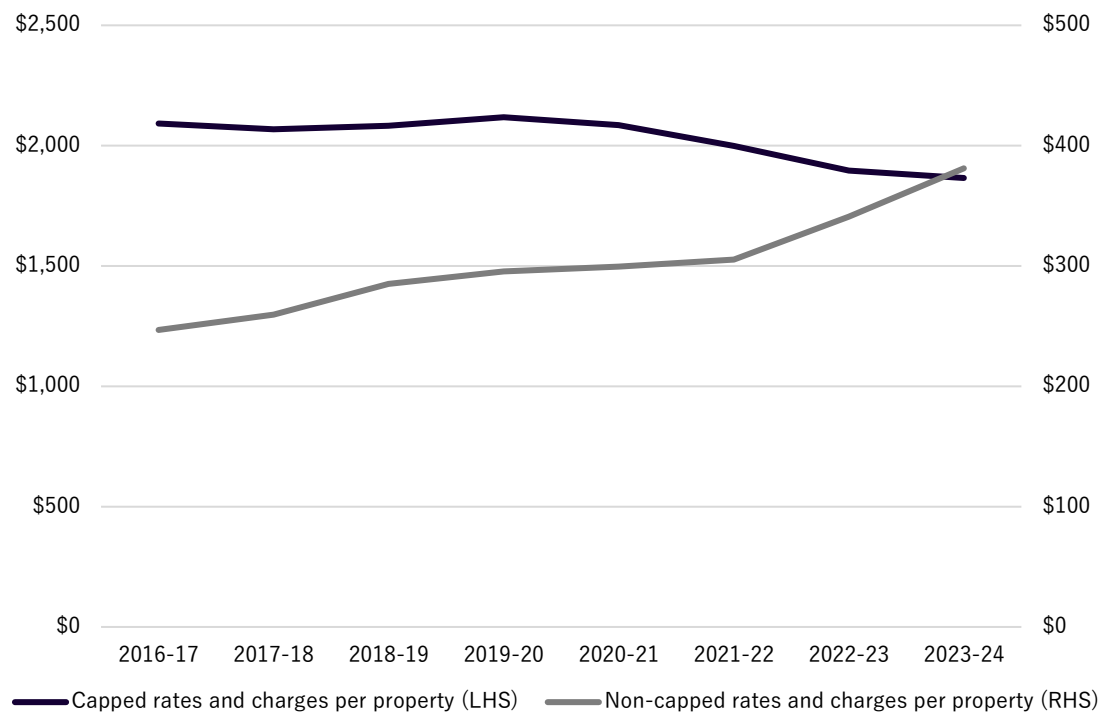
Source: Victorian Auditor-General's Office

While rates and charges have grown strongly in aggregate, the capped and non-capped components of the sector's revenue have grown at different rates. Following the introduction of rate capping, ratepayers have generally experienced from modest increases in general rates and municipal charges. For the average ratepayer, these capped rates and charges have remained relatively stable and, in recent years, have even declined in real terms – i.e., after adjusting for inflation.

By contrast, non-capped rates and charges – which are mainly waste-related charges – have grown in real terms over time (Figure 1.4). According to the ESC's latest rate capping outcomes report, this growth reflects the rising cost of waste management for councils.<sup>2</sup>

<sup>2</sup> Essential Services Commission (2025) [The Outcomes of Rate Capping](#) [accessed on 31 July 2025]

Figure 1.4      Local Government Sector: Rates and charges per rateable property (\$ / property, real 2024 dollars)



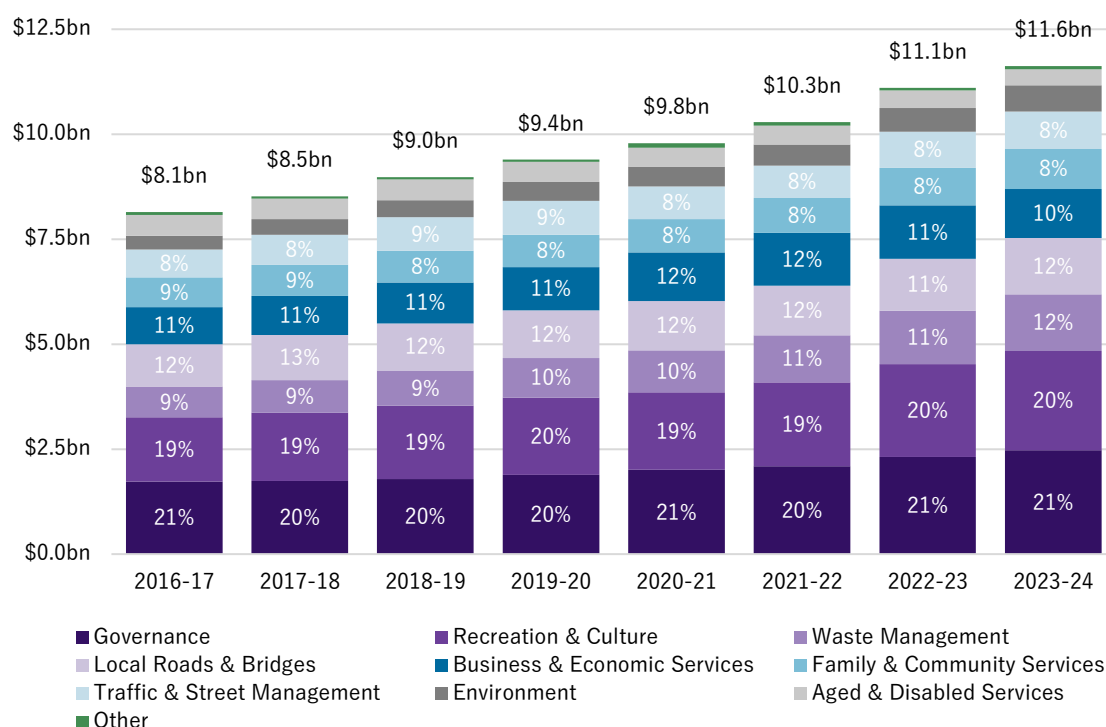
Source: Victorian Local Government Grants Commission

Disruptions in the waste market and loss of service providers in the late 2010s prompted the Victorian Government to implement its circular economy policy to strengthen the municipal waste sector, and with it, higher cost of service provision. While this policy shift is the key driver for rising waste charges, the ESC also noted that cost recovery practices remain inconsistent and varied across the sector.

## Expenditure

Since the introduction of the rate cap, council expenditure has increased at 5.2% per annum, outpacing revenue growth which has averaged 4% per annum.

Figure 1.5 Local Government Sector: Operating expenditure by purpose



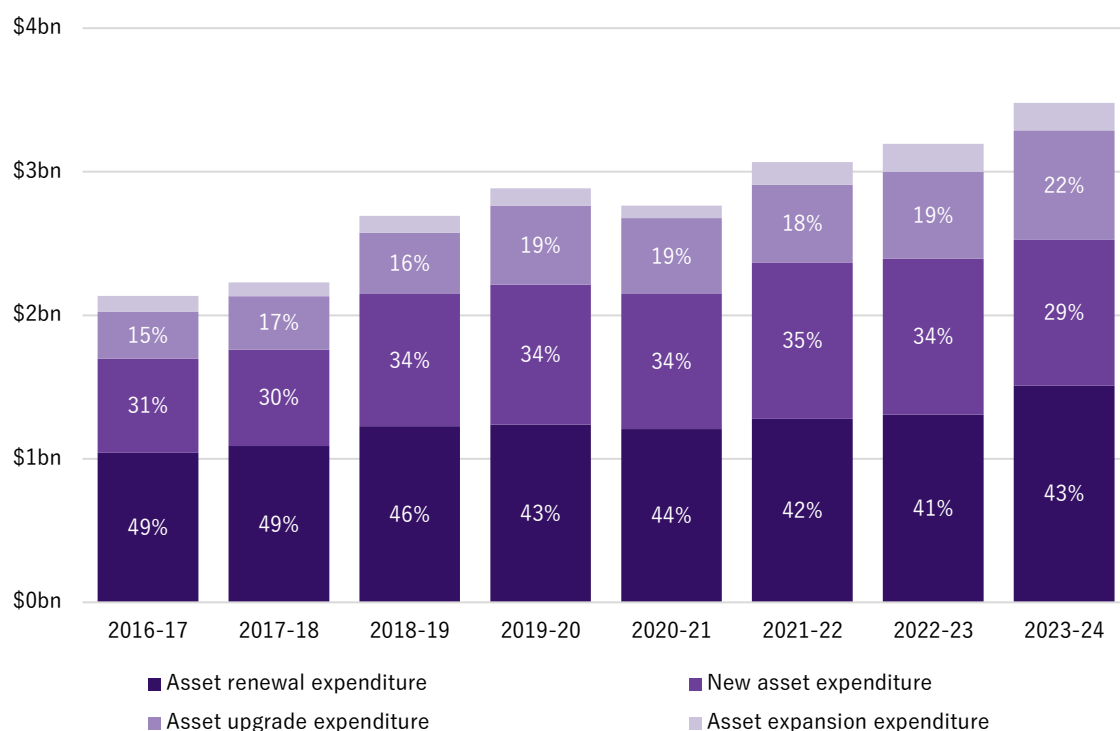
Source: Victorian Local Government Grants Commission

## Capital Investment and Asset Renewal

In addition to the provision of community services, councils are responsible for managing and maintaining local infrastructure, such as roads, public open spaces, and community facilities. Most councils hold large, fixed asset portfolios on their balance sheets, and have a significant capital works schedule to ensure the long-term sustainability of these assets.

Spending on capital works has grown significantly over time, averaging 7.2% growth per annum. Reflecting this trend, capital expenditure accounted for 27% of total expenditure in 2023-24, up from 24% in 2016-17. The composition of this expenditure indicates that the sector increasingly focussed on asset upgrades, while asset renewals – and to a lesser extent, new asset expenditure – have taken a backseat.

Figure 1.6 Local Government Sector: Capital expenditure by purpose



Source: Essential Services Commission

## Discussion Questions

## Section 1.2: Sector Financial Trends Perspectives

- Please describe recent financial trends in the Local Government sector, with particular focus on the cost / prices you face in delivering services, and the expectations of the community you serve.

## 2 Considering the RCM

*This sections discusses the aspects of the RCM Review which are relevant to considering the overall effectiveness and appropriateness of the mechanism, in the context of the Review's Terms of Reference. There are also questions centred on the impact of the RCM on short and long term financial planning.*

### 2.1 Appropriateness of the RCM

The RCM as it is currently legislated has been in place for nine full financial years, with the cap value of 3% applied in 2025-26 representing the tenth year of the mechanism. The 2021 RCM review did not result in any changes to the RCM as it is defined in Part 8A of the *Local Government Act 1989*, meaning the system has been in place as defined and legislated in 2015.

This mechanism was introduced in 2015 with the express purpose of placing downward pressure on rates and municipal charges faced by ratepayers across Victoria. With ten years of experience and one statutory review completed, please consider the broad appropriateness of the RCM and its delivery of the overall policy objectives of the Victorian Government as stated when the RCM was introduced.

#### Discussion Questions

#### Section 2.1: Appropriateness of the RCM

3. How appropriate is the rate cap mechanism as defined in the Act, in the context of the Victorian Government's overarching policy direction to contain escalating costs for all ratepayers?
4. How effective is the RCM as it has been defined in the Act in delivering the policy direction? What leads you to form this view?

### 2.2 Effectiveness of the RCM

Section 1 identifies broad trends in financial aggregates across the Local Government sector. ACIL Allen will undertake further detailed analysis of the financial impacts and implications on revenue, expenditure, capital investment and financial outcomes across the sector as part of the Review.

The scope and impacts of the RCM are not limited to the specific financial outcomes fostered. The services and investments requested and required of Local Government are not bound by the same cap, and neither are the costs (in terms of wages and other input costs) to do this. Demand for services is a function of the number of rateable properties, but also the changing expectations of ratepayers and the emerging needs of communities.

Local Government is required by legislation to determine its annual expenditure based on a transparent budgeting process, seeking the input of its administration, Council and ratepayers. Part of this process is identification of the funding model to deliver on the proposed expenditures contained in the budget, which initially can include:

- Service charges
- Other fees, charges, fines and penalties
- Government grants, including Financial Assistance Grants
- Balance sheet measures such as borrowings, asset sales / divesture
- Other revenue sources such as interest and investment returns on surplus funds

Rates and municipal charges, which are subject to the RCM, are effectively the “balancing item” which a Council may use to address funding deficiencies (ie if inflows and other funding measures are insufficient to meet the target budget). Councils are also subject to reporting against a series of financial indicators and operate under internal and external policies, which may influence the financial measures available to the Council in question – such as implied pressure to maintain low levels of borrowings.

The impact of the RCM, through the financial framework of Local Government, is multifaceted and may be observed through many aspects of this process of prioritisation, budgeting and funding. Please consider the below questions regarding the effectiveness of the RCM in achieving the original policy intent of Government.

## Discussion Questions

## Section 2.2: Effectiveness of the RCM

5. What impact has the RCM had on budget-setting, revenue and pricing, and expenditure decisions at your Council? For example, have you:
  - a) Decided to reduce spending in certain functional areas, or stopped undertaking activities in functional areas that you had operated in previously;
  - b) Found opportunities to spend less without changing what you do;
  - c) Changed the balance of spending on capital versus operational expenditures;
  - d) Sought opportunities to increase revenue / prices from sources which are not subject to the rate cap; and / or
  - e) Changed financial reserves and balance sheet policies / management (ie increased borrowings, reduced surplus cash reserves)?
6. Are there any improvements which could be considered to the legislation underpinning the rate cap mechanism? In responding to this question please consider:
  - a) The timelines defined by the Act
  - b) The entities and other parties who have a statutory role and function
  - c) What is “inside” and “outside” of the RCM mechanism

## 2.3 Policies and Plans

Local Government in Victoria is required by legislation to complete a range of short, medium and long term financial and asset management plans, including the annual budget cycle (referred to in Section 2.1), reporting of a four year financial outlook, a 10-year Asset Management Plan, and 10-year Financial Plan.

Collectively – and in conjunction with a range of other policies and plans not referenced above – this is referred to as the Integrated Strategic Planning and Reporting Framework (ISPRF).

The RCM plainly impacts and interacts with the ISPRF and associated / underpinning documents, plans and processes, as revenues generated from general rates and municipal charges represent the largest source of financial capacity for most Councils. With ten years of experience, we ask for your reflections on how the RCM as implemented has resulted in changes to policies, plans and practices in relation to budgeting and long term planning, reflecting on the requirements imposed by the ISPRF.

### Discussion Questions

### Section 2.3: Policies and Plans

7. Have your annual budget policies and procedures changed since the RCM was introduced? If so, in what way?
8. How does your Council / Executive respond to ratepayer questions and queries, desires, projects, in the context of the RCM?
9. How has the RCM impacted on the development and implementation of longer term financial planning and projections? Reflect here on your four year budget, 10-year Financial Plan, and 10-year Asset Plan.

# 3 Higher Caps

*The processes associated with Councils seeking a higher cap than the cap declared by the Minister are a particular focus of this Review. This section seeks feedback and input on the Process and Timelines for Councils seeking a higher cap under Section 185E of the Act.*

## 3.1 Reviewing the Process for Seeking a Higher Cap

Section 185E of the Act states that Council may apply to the ESC for a special order specifying a higher rate cap for one or more years. Under law, this application must:

- be lodged on or before the 31<sup>st</sup> of March the year before the first year the application applies to<sup>3</sup>
- be accompanied with the required fee
- specify the following
  - the proposed cap
  - the reasons for a higher cap
  - how the views of ratepayers has been considered
  - how higher rates demonstrate value for money
  - whether consideration has been given to reprioritising funding, or whether there are alternative funding options
  - that the assumptions and proposals are in line with the Council's long term strategy and financial management policies.

The ESC balances these considerations against their statutory responsibility to:

- promote the long-term interests of ratepayers and the community in relation to sustainable outcomes in the delivery of services and critical infrastructure
- ensure a council's financial capacity to perform its duties and functions and exercise its powers.<sup>4</sup>

To date there have been 19 applications considered by the ESC, about 80% of which granted some increase in funding capacity over the capped amount in that year, with about half being approved for the entire requested amount (**Table 3.1**). However, of the nine approved without conditions, two of these were revenue neutral.

The number of councils applying for additional funding has fallen over time. There were 14 applications for higher caps in the first two years (2016 and 2017) and only five since, including a 5-year period between 2020 and 2024 where no applications were received.

Table 3.1 Results of applications for a higher cap

	Approved	Approved (revenue neutral)	Approved in part / qualified approval	Not approved
Total	7	2	6	4
Share	37%	11%	32%	21%

Source: ACIL Allen review of ESC data

<sup>3</sup> This section also makes allowances for the Minister to specify a date other than the 31<sup>st</sup> of March, so long as that is published in the Government Gazette.

<sup>4</sup> ESC (2024) Box 1.1, *Fair Go Rates system – applying for a higher cap*. Accessed at: <https://www.esc.vic.gov.au/sites/default/files/documents/C-24-32280%20-%20Final%20-%20Fair%20Go%20Rates%20system%20-%20Applying%20for%20a%20higher%20cap%20-%20guidance%20for%20councils%202025-26.pdf>



## Discussion Questions

## Section 3.1: Higher Caps (Process)

10. Is the process for applying for a higher rate cap clear and well understood? What leads you to form this view?
11. Has your Council applied to the ESC for a higher rate cap? If so, what was your experience?
12. Has your Council ever considered applying to the ESC for a higher rate cap, but decided against submitting an application? What went into this consideration? Why didn't you act on this?

## 3.2 Timelines for Higher Cap Applications

Section 185D of the Act states that the level of the rate cap must be published in the Government Gazette before the 31<sup>st</sup> of December of the financial year before the capped year.<sup>5</sup> Councils may then notify the ESC that they will seek a higher cap on the 31<sup>st</sup> of January, then must submit their applications before the 31<sup>st</sup> of March.

The ESC commits to publishing a decision within two months of receiving the application. In the past, the ESC has typically published their decisions in May. The actual timing of decisions has tended to vary over time.<sup>6</sup>

- **2016:** 31 May
- **2017:** 31 July
- **2018:** 5 June
- **2019:** 29 May
- **2025:** 12 May

This period overlaps with the Council budgeting process. Each year Councils are expected to prepare a Draft Budget, which incorporates description and modelling of expenditures and services to be provided, major initiatives to be undertaken in the financial year, the quantum of rates and charges to be raised, planned capital works, funding for capital works, amongst a series of 33 requirements specified in the *Local Government Act 2020* and the *Local Government (Planning and Reporting) Regulations 2020*.<sup>7</sup> These are then released to the community for public comment, before adopting their finalised versions by the 30<sup>th</sup> of June each year.

It is noted there were a number of findings and recommendations made regarding the timeline permitted for the higher cap process in the 2021 Statutory Review.

### Discussion Questions

### Section 3.2: Higher Caps (Timelines)

13. Is the time between the Minister's determination of the Annual Rate Cap and when applications to the ESC close sufficient to consider and lodge an application? Why or why not?

14. Is the time between when the ESC may decide on an application and when Council budgets must be adopted sufficient? Why or why not?

<sup>5</sup> Or before any other date fixed by the minister and published in the Government Gazette.

<sup>6</sup> ESC (2024) Table 1, *Fair Go Rates system – Applying for a higher cap*. Accessed at: <https://www.esc.vic.gov.au/>

<sup>7</sup> Victorian Government (Department of Government Services). (N.D.). *Local Government Better Practice Guide: Model Budget 2025-26*. Accessed at: <https://www.localgovernment.vic.gov.au/>

## 4 General Questions and Comments

*This section provides an opportunity for any final feedback or input into the Review via the Discussion Paper process.*

### 4.1 Summary and General Questions

ACIL Allen thanks you for considering the RCM Review, and for providing a submission if you are in a position to do so. Please consider the final question as a place for any further feedback or input you wish to provide to the Review which you have been unable to provide in response to a previous question.

Discussion Questions

Section 4.1: General Questions

15. Are there any other matters you wish to bring to ACIL Allen's attention as they relate to the 2025 RCM Review?

# A RCM Review Terms of Reference

## Local Government Rate Cap Mechanism Statutory Review – 2025

### Terms of Reference

#### Introduction

In 2016, the Victorian Government introduced rate capping to restrict the amount that councils can raise their rates each year.

The legislative mechanism for the rate cap is set out in Part 8A of the *Local Government Act 1989* (the 'Act'). It allows the Minister for Local Government to set a limit on the amount by which councils can increase general rate revenue each year.

Section 185G of the Act states that the Minister for Local Government and the Minister administering the *Essential Services Act 2001* (the Assistant Treasurer) must ensure a review of Part 8A of the Act is completed by 31 December 2021 and every four years thereafter. The 2021 review was completed in December 2021, focussing on the administration of the rate cap and associated processes.

The Terms of Reference for the Local Government Rate Capping Mechanism – 2025 Review are as follows.

#### Scope of the Review

The Review is required to consider the following (as per s 185G of the Act):

- whether the mechanism for setting a cap on rates set out in Part 8A of the Act is still appropriate, and
- whether Part 8A of the Act is effective or needs to be amended.

The 2025 review will examine:

- Whether the rate cap has achieved its original policy aims to:
  - contain escalating costs for all ratepayers, and
  - strengthen rating discipline and transparency (by councils).
- The effect of the rate cap on councils' financial planning and management practices.
- Determining and substantiating any barriers to councils seeking a higher rate cap via application to the ESC.

The review is to make findings on the above and any recommendations as considered appropriate.

#### Out of Scope

The review will not consider:

- The Government's overarching policy of limiting local government rate increases.
- The merits of a rate cap applying to rates of individual properties or property categories and types (noting councils have rating powers available to them now to effect this).

<sup>1</sup> Local Government Rate Cap Mechanism Statutory Review 2025 – Terms of Reference

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- The quality or merit of previous individual applications by councils to the ESC for a higher cap (both successful and unsuccessful) or a review of any decisions by the ESC with regard to individual applications by councils.
- previous decisions by the Minister for Local Government in setting the rate cap amount
- matters that were within the scope of the 2019-20 Local Government Rating System Review including:
  - local government rates and charges levied under the *Local Government Act 1989* and a number of other pieces of State legislation;
  - the rating system's interaction with the State's taxation, valuation and related systems;
  - current rating exemptions and concessions.

### Consultation

The review will include consultation with councils, State Government entities and agencies and other parties including, but not limited to:

- Municipal Association of Victoria, LGPro, Australian Services Union, FinPro, Victorian Local Governance Association, other local government peak bodies and ratepayer groups
- Essential Services Commission
- State Government Departments including Treasury and Finance, Premier and Cabinet, and Government Services
- Individual ratepayers.

It is expected that the review will draw upon relevant reports and documents including, but not limited to:

- Publications, reviews, studies and reports undertaken by the ESC, including the 2015-16 work to develop the rate cap mechanism along with reports from integrity bodies such as VAGO, Local Government Inspectorate and Ombudsman Victoria.
- The Legislative Council Environment and Planning Committee Inquiry into Rate Capping Policy (multiple reports)
- Other relevant Parliamentary inquiries and reports
- Publicly available datasets and data derived from public sources such as council financial reports and budgets.

### Reporting

The review will produce a final report that must be completed no later than 17 December 2025. The report must contain the conclusions and findings of the review as well as any recommendations considered appropriate and within these Terms of Reference. The review's final report will be published on the Department of Government Services website.

**Melbourne**

Suite 4, Level 19, North Tower  
80 Collins Street  
Melbourne VIC 3000 Australia  
+61 3 8650 6000

**Canberra**

Level 6, 54 Marcus Clarke Street  
Canberra ACT 2601 Australia  
+61 2 6103 8200

ACIL Allen Pty Ltd  
ABN 68 102 652 148

[acilallen.com.au](http://acilallen.com.au)

**Sydney**

Suite 603, Level 6  
309 Kent Street  
Sydney NSW 2000 Australia  
+61 2 8272 5100

**Perth**

Level 12, 28 The Esplanade  
Perth WA 6000 Australia  
+61 8 9449 9600

**Brisbane**

Level 15, 127 Creek Street  
Brisbane QLD 4000 Australia  
+61 7 3009 8700

**Adelaide**

167 Flinders Street  
Adelaide SA 5000 Australia  
+61 8 8122 4965