

**Hume City Council  
response to  
Local Government  
Rate Cap  
Mechanism  
Statutory Review –  
2025**

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# 1. Executive Summary

Local government strongly supports the intent of the Fair Go Rates System in protecting ratepayers from excessive increases. However, the current mechanism—linking the rate cap to CPI—does not reflect councils’ real cost base, particularly for high-growth municipalities. The result is a system that erodes financial sustainability, constrains long-term planning, and limits councils’ ability to meet growing community needs.

Additional Government policy, such as the Victorian Government’s Housing targets, places additional pressure on Local Government to fulfill these obligations in the face of a rate-capped environment. While Council believes it can meet this need, this places additional costs to operating and capital budgets that is not met through infrastructure levies. Recognition of the costs of additional growth should be reflected in an additional levy that could be applied in a sliding scale to recognise different levels of growth.

We recommend reforming the framework by introducing a Local Government Cost Index that better reflects council cost drivers, incorporating a growth allowance to recognise population and household pressures, recognising the impact of cost shifting from other levels of government, and streamlining the higher cap process to reduce administrative burden. These changes will preserve fairness to ratepayers while ensuring councils remain financially sustainable and able to deliver essential services and infrastructure.

## 2. Introduction

Local government plays a vital role in delivering essential services and infrastructure that support community wellbeing, growth, and liveability. Councils are responsible for maintaining community facilities, local roads, parks, and open spaces, while also delivering services such as waste collection, maternal and child health, and libraries.

The introduction of rate capping has helped Councils contain its own costs but has not been cognisant of the costs for delivering the wide variety of services, programs and projects local communities need. For growth councils such as Hume, the challenges are magnified. Population and household growth requires new and expanded services, major infrastructure investment, and ongoing maintenance of new community assets—all within a capped revenue environment. This places long-term financial sustainability at risk and forces councils into difficult decisions about which projects and services can be funded, and which must be delayed.

The CPI measure for guiding the capping of rates is not reflective of the actual costs of delivering services for Local Government. Its definition alone – *“an important economic indicator that measures the change in the price of a 'basket' of goods and services, which account for expenditure by households in capital cities”*<sup>1</sup> is evidence that it cannot be used comparatively to account for the delivery of capital works, payment of staff, maintenance of assets and delivery of regulatory and compliance obligations.

Council’s submission seeks the Victorian Government to undertake a review of this measure, to include an additional allowance to address growth and to reform the process to make it easier for Council’s to apply for a higher cap.

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<sup>1</sup> <https://www.abs.gov.au/articles/frequently-asked-questions-faqs-about-consumer-price-index>

### 3. Recommendations

In line with Hume City Council's submission to the Victorian Parliament's *Inquiry into Local Government funding and services*, the following recommendations are put forward:

1. That the CPI measure be replaced with a Local Government Cost Index. This index should be developed to reflect the actual cost base of councils, including:
  - a. Wage growth in line with enterprise agreements.
  - b. Construction and materials cost inflation.
  - c. Asset maintenance and renewal costs.
  - d. Compliance and regulatory obligations.
  - e. Recognise cost-shifting impacts from other levels of government in the rate cap setting.
2. Introduce an additional rate cap allowance that is directly linked to the Victorian Government's housing supply targets that reflects both the significant pressure this growth places on operating and capital budgets and the importance of providing timely provision of infrastructure and services to new communities, commensurate with those available to Melbourne's more established areas.
3. Reform the higher cap application process to reduce administrative burden, align with budget cycles, and address political and community pressures.

These changes would maintain fairness to ratepayers while ensuring councils remain financially sustainable and able to deliver essential services and infrastructure.

## 4. 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).

Council acknowledges and supports the intent of rate capping in protecting ratepayers from excessive increases in rates and charges. However, in its current form, the rate cap mechanism poses significant challenges to the financial sustainability of councils—particularly those experiencing strong population and household growth—while constraining our ability to meet the increasing demand for services and infrastructure.

Hume City Council's rates and charges income makes up approximately 64% of our underlying revenue. Council's adopted Revenue and Rating Plan 2021 – 2025 highlights the issues caused by the introduction of the Fair Go Rates System (rate capping) on long term financial sustainability and continues to restrict Council's ability to raise revenue to maintain service delivery levels and invest in community assets and infrastructure.

The current system, under which the cap is tied to CPI – but may be less than CPI - is not providing sufficient rate revenue. The cap does not match the actual increase in the cost base of existing services and infrastructure.

This is the experience of New South Wales, where the rate peg has led many councils to apply for large special variations to address its impact, resulting in significant rate shocks across NSW communities.

For growth councils, rate capping in its current form fails to recognise the additional financial demands created by rapidly increasing populations and households. While growth generates additional rates revenue, it also requires:

- The delivery of new and expanded services.
- The construction and maintenance of new community facilities, open spaces, and infrastructure.
- The ability to meet other external factors such as Government policy (Victorian Housing Targets etc)

Given all this, the current approach is inappropriate for the local government sector. CPI is a measure of household inflation and does not reflect the actual cost drivers of councils, which differ significantly from those of an average household.

## 5. The effect of the rate cap on councils' financial planning and management practices.

The Essential Services Commission (ESC) has acknowledged the rate cap does not accurately represent local government costs which automatically puts Councils at a disadvantage. We believe the rate cap should be reviewed to be sensitive to the Local Government cost context.

Maintaining service delivery levels and investing in community assets remain key priorities for Council. Given the heavy dependence on rate revenue and the constraints of rate capping, which limits the ability to generate revenue beyond the cap, the Council faces the challenge of reducing reliance on property rates.

This necessitates identifying alternative revenue streams and funding opportunities. However, these opportunities are limited by legislated statutory fees and charges. Additionally, non-statutory fees and charges must be set at levels that ensure accessibility for all community members, regardless of their wealth or disposable income.

While Council's overall cash holdings may appear high, the vast majority of these funds are tied to statutory reserves, provisions (such as employee entitlements and landfill rehabilitation), and funds held in trust. Our level of **unrestricted cash**—the only portion available for day-to-day decision-making—is limited. This distinction is critical, as the Essential Services Commission should assess councils' financial capacity based on unrestricted rather than total cash.

The adjusted underlying result—one of the key sustainability indicators used by the ESC—continues to trend downwards under the rate capping regime. The inability of the cap to keep pace with the cost base has progressively eroded this measure, reducing the sector's long-term capacity to fund services and infrastructure.

This would mean a review that has regard to employee and operating costs, as well as capital works costs, developer/infrastructure contributions and the impacts of State/Federal Government cost shifting which are particularly relevant to growth councils such as Hume.

### Escalating costs to deliver projects

Council is experiencing cost escalations in our capital works projects which is placing additional pressure on Council's financial sustainability.

In 2020 we opened our first pavilion Kalkallo, located in the north of our city. This facility provides male and female change facilities, shared community space, kitchen, storage and spaces for trainers and umpires and was delivered for \$1.7m.

In 2024 we opened a new pavilion in Mickleham with the same architect and builder engaged to do the works which also included male and female change facilities, shared community space, kitchen, storage and spaces for trainers and umpires. The project was delivered for \$3.3m – almost double the figure from only 4 years earlier. As a result of cost escalations like this, we have re-phased our entire capital works program, which means projects will be delivered later than expected.

## Reduction in Government grants

The rising cost of delivering projects is further exacerbated with a reduction in the availability of competitive Victorian Government grants to provide opportunities for Council's to partner with the Government to deliver community infrastructure projects.

The recent abolition of the Growing Suburbs Fund, which provided opportunities for growth Councils to compete for \$50 million in funding for community centres, open space, hubs and playspaces, has meant that we must deliver these types of projects without State support.

This on the back of a decrease in the amount of funding through Sport and Recreation Victoria. In 2019/20 Councils could compete for funding of up to \$3 million alone for aquatic centres.

Through the 2025/26 funding round the maximum funding available is \$500,000 for the redevelopment/upgrade to outdoor aquatic facilities that improve accessibility and participation such as leisure water, change rooms and energy or water efficiency upgrades, for example, heating of water spaces. This in a time where Infrastructure Victoria recommended *"In the next five years, increase funding to support local governments to plan and deliver libraries and aquatic recreation centres in Melbourne's seven growth area municipalities" as "new aquatic centres can cost from \$50 million to \$70 million."*<sup>2</sup>

As we progress to 2025, Mitchell Shire Council are currently planning a new Recreation Precinct which includes aquatic facilities. They have estimated the aquatic facilities will cost \$99 million<sup>3</sup>. This is further evidence that Councils cannot deliver this type of infrastructure alone.

## Developer/Infrastructure Contributions

Many DCP/ICP projects require councils to fund works ahead of receiving contributions from developers. In some cases, projects are not fully funded by contributions, creating a shortfall that must be met from general rates revenue—revenue which is already capped. This creates cashflow challenges and diverts funds away from other priorities.

Councils have an obligation to complete all projects included in DCPs and ICPs, irrespective of escalating costs or changing needs, exposing them to significant financial risks. For instance, when the Sunbury South and Lancefield ICP was initially gazetted there was a theoretical funding gap of \$32.5 million due to the cap on the levy rate for community and recreation infrastructure. Council modelling for the lifetime of the ICP now indicates that this funding gap exceeds \$80 million (for both transport and community and recreation infrastructure). In less than 5 years the funding gap has almost tripled.

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<sup>2</sup> Social infrastructure in Melbourne's growth areas, Infrastructure Victoria, September 2021

<sup>3</sup> <https://www.mitchellshire.vic.gov.au/council/advocacy/advocacy-priorities/greenhill-recreation-precinct-2>

## Victorian Government's Housing Targets

In March 2025 the Victorian Government announced additional housing targets for every local government area, specifying their share of the extra 2.24 million homes that will be needed to accommodate Victoria's expected population growth. As a growth area Council Hume's housing target is to accommodate an additional net new dwellings by 2051 of 79,000 homes with a greenfield target of 53,500 homes and a non-greenfield target of 25,500.

While Council believes it can meet this need to help ease the housing crisis this comes with significant additional cost to operating and capital budgets that is not met through infrastructure levies and impacted by the rate cap. Recognition of the costs of additional growth should be reflected in an additional levy that could be applied in a sliding scale to recognise different levels of growth.

## Cost Shifting

State and Federal Government cost shifting continues to add financial burden to councils. Under a rate-capped environment, these imposts can only be absorbed through reducing service levels, delaying capital works, or increasing borrowings—none of which are desirable outcomes for our community.

Traditionally, cost shifting has impacted areas like libraries and the school crossing supervision program. However, it is now encroaching into critical areas such as maternal and child health and building enforcement. Areas that were traditionally funded or at least partly funded by the state government have seen reduced funding in real terms over the years, or funding has ceased altogether. This expansion underscores cost shifting as a major concern, posing a serious threat to future financial sustainability and forcing councils to absorb the full cost of maintaining and delivering essential services.

The following outlines some of the current cost shifting impacts faced by Council:

- Libraries
- School Crossing Supervision
- Maternal and Child Health
- Early Years Infrastructure
- Citizenship Ceremonies
- Building Reform
- Planning
- Electrical Line Clearance

## 6. Determining and substantiating any barriers to councils seeking a higher rate cap via application to the ESC.

While the framework allows councils to apply for a higher cap, the process is resource-intensive, time-consuming, and creates uncertainty for both councils and communities.

Specific barriers include:

- Short application timelines that conflict with the annual budget process, making it difficult to integrate higher cap decisions into long-term planning.
- High administrative and evidentiary requirements, including detailed financial modelling, service impact statements, and extensive community engagement, which require significant staff resources.
- Lack of certainty of outcome, meaning councils risk investing substantial time and cost into an application with no guarantee of success, while still being legally obliged to prepare a compliant budget.
- Potential for community confusion, as the higher cap process requires public consultation before knowing whether the application will be approved, leading to mixed messages about future rates.
- Political challenges for councillors, who may understand the financial sustainability implications of a capped environment but also face significant pressure to support their communities during a cost-of-living crisis. In such an environment, applying for a variation to the rate cap can be perceived as politically unpalatable, regardless of the long-term financial necessity.

For growth councils, these barriers are particularly problematic. The very factors that may justify a higher cap—such as new service demands, major infrastructure needs, or funding gaps in DCP/ICP projects—are also the factors that leave councils with fewer staff resources and tighter timelines to prepare such applications.

We recommend that the process be streamlined and aligned with the realities of council budget cycles, with greater transparency about assessment criteria and the potential for provisional approvals to reduce uncertainty.

## 7. Conclusion

We recommend that the rate cap framework be reformed to ensure it remains fair to ratepayers while also enabling councils to remain financially sustainable and responsive to community needs.

It is important to note that councils, including Hume, have already demonstrated restraint and efficiency. For example, staffing increases have been held below population growth, vacant positions have often been left unfilled to support wider organisational savings, and procurement processes have been strengthened to deliver value for money. Despite these measures, the financial pressures created by the current rate cap framework remain unsustainable.

A shift to a Local Government Cost Index, coupled with growth-based adjustments, recognition of cost-shifting pressures, and a more practical higher cap process, would create a more equitable and effective system for all Victorian councils.