



Higher Rate Cap Application

March 2025

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Administration

Terminology

This document discusses the use and future of Council's \$88.15 per property charge (2024/25) that is raised in accordance with section 162 of the *Local Government Act* (1989) and used for waste and resource recovery activities.

For the avoidance of confusion, this charge is known by several interchangeable terms:

- In legislation (s.162 of the *Local Government Act* (1989)), this is known as a “**Service Charge**”.
- This charge is commonly known in the local government sector as a “**Waste Levy**”.
- Indigo Shire Council has chosen to name this as the “**Environmental Management Contribution**”, or **EMC**.

This document draws information from many sources and therefore the terminology changes depending on the context/source. For clarity, the terms shown above are used to describe the same charge and, in the context of this document, each can be substituted for each other.

In addition, the discussion in this document covers several financial years therefore some of the financial figures change depending on the context of the discussion. For example, the Environmental Management Charge is \$778k in the 2024/25 financial year and this number is used in some parts of the document. However, much of the discussion relates to the 2025/26 financial year (and beyond). For 2025/26 the EMC is projected to be \$802k and this number is also used in the document. The numbers used depend on the context that they are used in. Where appropriate (or not obvious) the text provides clarity about which number is being used.

Definitions

- **EMC:** Environmental Management Contribution.
- **ESC:** Essential Services Commission.
- **ISC:** Indigo Shire Council.
- **LGA:** Local Government Act.
- **LTFP:** Long Term (ten-year) Financial Plan.

Sources

The information in this document has been collated from many sources including Council reports, annual reports, budgets, legislation, publicly available information, etc.

Further Information

Also forming part of this application are:

- The Essential Services Commission's application cover sheet.
- The Essential Services Commission's financial spreadsheet.
- 2023-24 Annual Report: [Annual Reports | Indigo Shire Council](#)
- 2024-25 Budget: [Budget 2024/25 | Indigo Shire Council](#)
- 10-Year community vision: [Community Vision | Indigo Shire Council](#)
- 10-Year Financial Plan: [Budget 2024/25 | Indigo Shire Council](#)
- 10-Year Asset Plan: [Asset Plan | Indigo Shire Council](#)
- 4-Year Revenue and Rating Plan: [Revenue and Rating Plan 2021-2025 | Indigo Shire Council](#)
- 4-Year Council Plan: [Council Plan 2021-2025 | Indigo Shire Council](#)

Information has been provided in accordance section 185E of the *Local Government Act* (1989), as well as the information requested by the Essential Services Commission in the document: *Fair Go Rates system – Applying for a higher cap Guidance for councils 2025–26* (December 2024).

Additional information or explanation is available on request from the ESC.

Purpose

This document is specifically written for two audiences.

The first and primary audience for this document is the Essential Services Commission (ESC), the body tasked with assessing rate cap increase applications. This document provides the required information, calculations, and analysis used by the ESC in their deliberations. As will be explained in this document, the revenue-neutral transfer of a levy to general rates is a different type of application to a traditional rate cap increase, and council thanks the ESC for their guidance in relation to this specific type of application.

In addition, this document has been written for the Indigo Shire community, many of whom will not be aware of the Minister for Local Government's 2024 guidelines for service rates and charges that triggered this rate cap application. It is important to explain to the community the background of council's Environmental Management Levy (EML) and put this rate cap application in its correct context.

One of the most notable aspects to this application is that, despite technically being a 'rate cap increase', the changes requested in this document do not increase the total revenue that council will receive from the community. Instead, this application is for a cost-neutral transfer of the current \$88.15 per-property charge (the "Environmental Management Contribution") into general rates. Importantly, despite being cost-neutral for both council and the overall community, this change does alter the distribution across different property types. As per the Minister's direction the charge would move from a per-property basis to an apportionment based on the wealth tax principle (higher valued property owners pay a larger proportion than owners of lower valued properties). This redistribution is the main impact of this application, and this document explains the extent of the redistribution, as well as the ways that this council has moderated the variance to a level that to reduce the impact.

Executive Summary

This application investigates the proposed higher cap in several ways to ensure that the proposed rate cap increase in 2025/26 is the correct quantum, is being made for the correct reasons, has considered the community, provides good value for money, is the most appropriate action (rather than cutting services), and is appropriate for the long-term future of the municipality. Most importantly the analysis also models the distributional impacts of this change and quantifies the expected increase/decrease for the different property types.

The conclusion of this analysis is that the proposed revenue-neutral change to move \$801,624 from a waste levy to general rates, requiring a 7.54% rate increase in 2025/26, is appropriate for Indigo Shire Council to comply with the Minister's guidelines for service rates and charges. This would be implemented by first increasing the Municipal Charge to the maximum of 20%, before adjusting the rate in the dollar.

Section 1: Background

Indigo Shire

Indigo Shire is located in Victoria's picturesque northeast, an easy three-hour drive north of Melbourne. The Shire is a rich blend of heritage architecture and pristine natural environment nestled between Murray River frontage in the north and the lush foothills of the Alps in the southeast.

In between are productive agricultural enterprises, including award-winning wineries and chestnut farms. A celebrated box ironbark national park in the centre, the green rolling hills of dairy farming in the east and rugged, granite outcrops with stark reminders of the once lucrative goldfields in the south. The Shire is home to a number of threatened species including Regent Honeyeaters, Barking Owls, Squirrel Gliders, Striped Legless Lizards, Swift Parrots, many spectacular endangered orchids and other native flora and fauna. Industry in Indigo is mainly rural in nature, including agriculture, viticulture and horticulture.



There are approximately 1,983 separate businesses across the Shire.

Tourism plays a huge role in the economic, social and cultural life of the Shire, with thousands of visitors drawn to our region to sample our food and wine, learn more about our rich heritage, participate in our many well-known festivals and events and enjoy some of the best on and off-road cycling destinations in the country.

Indigo Shire Council was established in 1994 with the amalgamation of parts of the former Shires of Rutherglen, Chiltern, Yackandandah and Beechworth. The Shire covers an area of 2,040 sq km and includes the townships of Wahgunyah, Rutherglen, Chiltern, Barnawartha, Yackandandah, Kiewa- Tangambalanga, Stanley and Beechworth, all unique in their own right.

Community members are highly engaged with many actively involved in their communities. More than 300 residents volunteer with Council services such as our libraries and Visitor Information Centres, and there is strong and passionate representation on Committees of Management, Advisory Committees and other Council committees.

Catalyst for this application

The catalyst for this application, and the driver of the decisions being considered by Indigo Shire Council is the Minister for Local Government's *Minister's Good Practice Guidelines for Service Rates and Charges* (2023) and the Minister's statement that:

It is not good practice for a council to:

- *Levy a Service Rate or Charge to fund services that do not provide a direct benefit to the occupancy subject to the Service Rate or Charge.*

This original guidance stated that "*These Guidelines take effect from 1 March 2024*" however this was not possible due to the 2023/24 council budgets being set prior to the Minister's guidelines being published. Subsequent clarification came in the form of a letter from the Minister in March 2024:

I acknowledge that Ministerial Good Practice Guidelines issued under s.87 of the Local Government Act 2020 are not mandatory and are not enforceable. As such, I urge councils to consider the Guidelines, their own practices, and transparency with their ratepayers. Having

published my expectations of the sector about Service Rates and Charges, some councils may require more time than the next budget cycle to comply with the Guidelines. For those councils unable to comply in 2024-25, I expect that they will demonstrate a pathway for compliance in future budgets.

At its May meeting, Indigo Shire Council received and considered a report about the Draft Budget (2024/25). This report raised the matter of the Minister's Guidelines and contained the following section:

Waste Management Charges

Indigo Shire sets its waste charges based on modelling that aims to recover only its projected costs over the long term. In any one year the financial result will vary depending on a number of factors including the estimated cost of landfill rehabilitation calculations. Council monitors this over several years to ensure an appropriate long-term position is maintained. Annual fluctuations can occur, therefore any one year may result in a surplus or a deficit position.

The Draft Budget proposes a number of adjustments to the waste fees. These changes are a result of a number of factors including the tendering and awarding of a new 10-year kerbside waste contract.

Charges for kerbside services in Council's budget align with the Local Government Minister's Good Practice Guidelines (the Guidelines) relating to waste service charges. For 2024/25 Budget a \$9.45 reduction per urban property, and an \$23.75 per property reduction per rural property is proposed.

Indigo Shire also charges an "Environment Management Levy". This covers the cost of waste management other than kerbside waste collection. This includes activities such as landfill rehabilitation, transfer station costs, street sweeping, street litter bins, event waste management. This levy has also been modelled to only cover the cost of these activities without making a surplus in the long run. It predates the inception of the "Rate Cap" by many years.

The Guidelines make other recommendations about linking waste management charges directly with those services provided directly to the property. It recommends that other waste related charges should be included in General Rates rather than waste management charges. In Indigo Shire's case this means that the costs currently recovered by the Environment Management Levy should instead be included in General Rates.

Full compliance with the Guidelines will require the discontinuing of the current Environmental Management Levy and a transfer of this charge to the General Rates. Under the current Rate Capping system employed in Victoria this change will require an application to the Essential Services Commission (ESC) to ensure that the transition is appropriate and does not negatively impact ratepayers or Council. Also, under the Rate Capping system it is not possible to secure an approval by the ESC in time for inclusion in this 2024/25 Budget.

It is therefore proposed that an application be made to the ESC to transfer the Environmental Management Levy to General Rates, with no net change in revenue overall, in other words, no additional cost to ratepayers overall. It is also proposed that this transfer occur in 12 months' time commencing with the 2025/26 Budget, at which point the Shire will be fully compliant with the Guidelines.

Council then passed the following resolution (only the relevant part is shown below):

That Council;

1. *Notes*

...

c. *That Council will work with the Essential Services Commission to transition the Environmental Management Levy income to General Rates, and that it is anticipated that this will be achieved for the 2025/26 financial year.*

At its June 2024 meeting Indigo Shire Council considered community feedback on the 2024/25 Draft Budget (including a proposed Environmental Management Contribution of \$88.15) and passed a resolution to adopt the proposed budget. The report included a commentary on the Minister's Guidelines (the commentary in the June 2024 report was materially the same as the commentary in the May 2024 draft budget report shown above). The final budget adoption resolution contained the following resolution:

10. Waste

Council endorses the path to compliance with the Minister for Local Government's Good Practice Guidelines relating to waste service charges that is outlined in the body of this report, and the CEO be authorised to commence the process of converting the Environmental Management Contribution to General Rates, with no net financial impact on Council or ratepayers.

On July 4, 2024, Council informed the Essential Services Commission that Indigo Shire Council will be seeking a rate cap variation for the purposes of rolling the Environmental Management Contribution into general rates.

Environmental Management Contribution

Local Government Sector

It is important to recognise the history of the Environmental Management Contribution and its legitimate use to transparently fund waste and recycling services.

The Local Government sector has been using property-bases service charges for many years as a legitimate and transparent way of showing the funds required to run waste and recycling services. It has been estimated (FinPro 2024) that at least 80% of Victorian Councils use these levies. These levies were authorised by s.162 of the *Local Government Act* (1989) and this authorisation is ongoing.

In 2015 the state government consulted with ratepayers and the local government industry about the implementation of a rate cap. After significant consultation and deliberation the Essential Services Commission recommended that:

"service rates and charges should not be included in the rate cap, but be monitored and benchmarked"

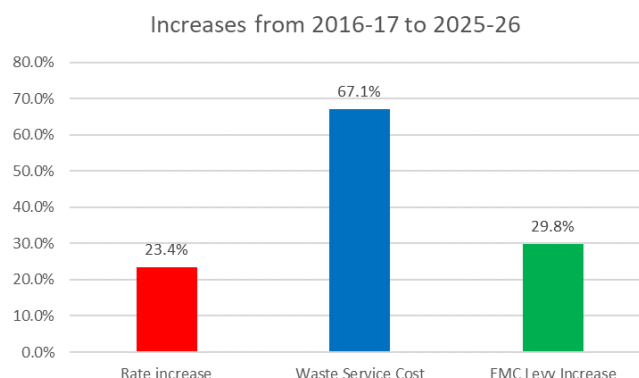
(Essential Services Commission 2015, A Blueprint for Change, Local Government Rate Capping & Variation Framework Review — Final Report, September 2015).

This was based on concerns that “councils and peak bodies noted that a number of cost and revenue pressures beyond their control have contributed to above CPI increases over the years” (Essential Services Commission 2015, *Local Government — Rates Capping and Variation Framework Consultation Paper, April 2015*) and cited the following example:

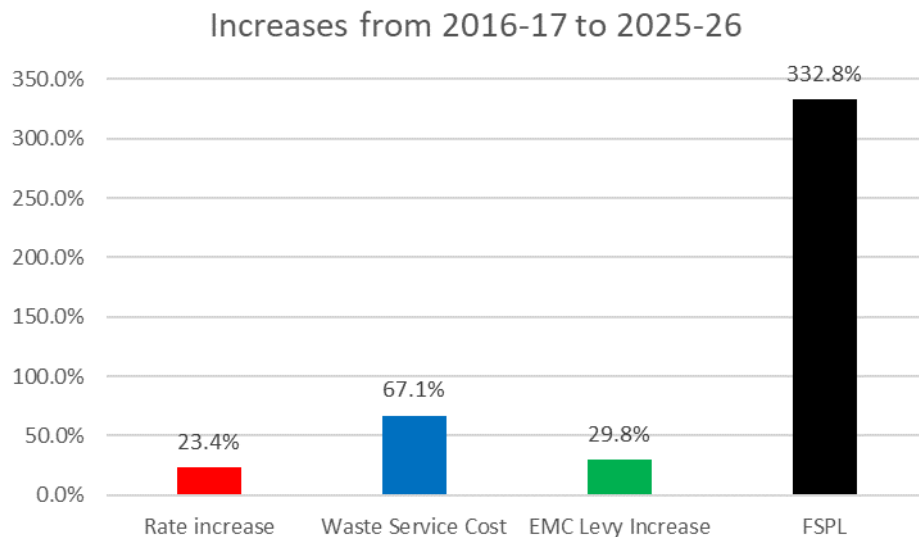
The State Government’s landfill levy has increased from \$30/tonne in 2010-11 to \$58.50/tonne in 2014-15 for metropolitan municipal waste and from \$15/tonne to \$29.30/tonne for rural municipal waste. Some councils have noted that landfill is a significant proportion of increases in rates and charges.

This position was endorsed by the state government and the service charges in accordance with s.162 of the *Local Government Act* (1989) were deliberately left out of the rate capping system. It is notable that, despite being outside of the rate capping system, Indigo Shire Council has based the EMC increase on the rate cap percentage and only twice in these ten years has council needed to increase it above the cap. These increases were consistent with direct corresponding increases in the cost of the waste service at the time.

A comparison of the relevant increases from 2016-17 to 2025-26 is shown below. The increase in rates over this time totals 23.4%. The increase in council’s cost base to deliver the waste services was 67.1%. Despite the significant cost pressures in the waste service, Indigo Shire Council was able to limit the increase in the Environmental Management Contribution to only 29.8%. This demonstrates this council’s commitment to acting in the spirit of the ESC’s rate capping recommendations, even if not legislated to do so.



By way of comparison, the Essential Services Commission also considered the state government’s Fire Services Property Levy as part of their consultation in 2015 and recommended that this state government charge (collected by councils on the annual rates bill) should also be outside of the rate cap. The state government then accepted this recommendation when it subsequently passed the rate capping legislation. The comparative growth in the Fire Services Property Levy (for an average valued farming property in Indigo Shire) since the introduction of rate capping is shown below.



Indigo Shire’s Environmental Management Contribution journey

Indigo Shire Council has, for many years, taken a strong leadership position in waste recovery and recycling. Indigo was amongst the first Councils in Victoria to implement compulsory food and garden organics recycling, and the success of this program has resulted in some impressive results for the environment. The 2023/24 Local Government Performance Reporting Framework (LGPRF) data shows that Indigo Shire is in the top 20% of all Victorian Councils for “Kerbside waste diverted from landfill”. Innovations in Indigo Shire’s waste and recycling service continue with the recent introduction of a shire-wide trial of soft plastic recycling. Indigo Shire is also an active member of a collaboration with five other Councils on both sides of the Vic/NSW border to deliver kerbside waste services. In addition to the service delivery aspects of this collaboration the participating councils also contribute to education campaigns for the reduction of waste via the “Halve Waste” program.

The original implementation date of the EMC is unknown. It has been in place for at least 15 years, and estimated to be much older than that. The reason for the levy is to part-fund the waste and recycling expenses. The use of a levy (instead of general rates) has been a common mechanism used by Councils in Victoria and has the significant advantage of being transparent to the community. This increases accountability, and the use of a levy creates a clear line-of-sight between the revenue raised and the use of those funds by Council.

In 2018 the Victorian Ombudsman released a report about an investigation into a claim that *“the Wodonga City Council had been over-charging its ratepayers a waste management levy... above the cost of running the service”*. This investigation resulted in two recommendations, the first was specific to Wodonga, and the second was *“That Local Government Victoria consider recommending that section 162 of the Local Government Act 1989 (Vic) be amended to require that charges for the collection and disposal of refuse reflect the reasonable cost of providing that service”*.

Indigo Shire Council used this report as a catalyst to re-check its charging and service philosophy in relation to the EMC levy and found it to be appropriately charged and used. In addition, the Ombudsman’s report was seen as an opportunity to increase transparency of this charge by providing commentary in the annual budget adoption reports. The text below is from the 2019 budget adoption report to Council (the first budget report following the Ombudsman’s report).

Waste management charges

A recent Ombudsman’s report has reviewed the sector-wide practice raising of waste management charges and the appropriate use of this money. The Ombudsman’s report had 2 recommendations; one for the State Government (to clarify the Local Government Act section that authorises these

waste management charges) and one for Councils (to ensure that funds raised are used exclusively on waste management activities).

In light of the recent Ombudsman's report, staff have assessed Indigo's compliance with the recommendation made in the report. As stated in the Ombudsman's report, the legislation is not clear on the use of waste management charges and therefore this analysis of Indigo Shire's compliance has been done using the legislation, better practice guide and the methodology outlined in the Ombudsman's report.

Indigo Shire Council's financial result for the waste management service does vary from surplus to deficit from year to year depending on the level of expenditure required in any one year. Over the past 10 years Council has a cumulative deficit in waste management of approximately \$1.046 million. The draft 2018/19 budget predicts a deficit of \$65,356. Attached to this report is a 10-year analysis of Council's waste management income and expenses.

Based on the current understanding of the legislation and in the context of the Ombudsman's report, Indigo Shire Council believes that the waste management charges have been legally raised, and that all of these funds have been appropriately used to deliver waste management services to the community.

Council will continue to monitor this matter and would welcome any additional clarification that may be made by the State Government to assist the Local Government sector in better understanding this section of the legislation.

Since the 2018 Ombudsman's report and the 2023 Minister's guidelines, Indigo Shire Council has received occasional inquiries that are often based on an incorrect belief that this charge is now somehow illegal, unsupported by legislation, or otherwise unethical. For this reason, it is important to clarify that this charge is a legal, and transparent method of raising funds for the purpose of waste management and recycling.

In 2019 an Indigo Shire resident raised a query with the Victorian Ombudsman with a concern that Indigo Shire Council may be profiting from the levy. The Ombudsman investigated this inquiry, and council provided income and expense information on the levy as well as council's waste costs. After consideration of the data, the Ombudsman made the following statements:

- *Overall, I am satisfied with the actions Indigo has taken with respect to the administration of the EMC and in responding to the Ombudsman's investigation into Wodonga's waste management fee. I have detailed my consideration of your complaint, below.*
- *I am satisfied that Indigo has been transparent in its charging of its waste management charge, which includes the EMC. Indigo's budget and recorded minutes clearly itemises each component of the fees.*
- *In addition to the above, Indigo's financial documents demonstrate that, unlike Wodonga, it has not generated a profit from levying the EMC but has instead demonstrated a deficit.*
- *In the context of the Ombudsman's investigation into Wodonga council, I note the following distinguishing factors in Indigo's practices:*
 - *Indigo is providing a fee for service, which explains the difference between the council's rural and urban EMC fees.*
 - *Indigo is not profiting from this fee, whereas Wodonga was generating a profit. Indigo's financial position is evidenced by the relevant information provided to the Ombudsman.*
 - *The information provided by Indigo indicates it is charging only for the reasonable costs associated with the fee.*
 - *Council is only using the funds for genuine GMC activities, whereas Wodonga was using its related funds for services that were not associated with waste management.*

2025/26 and beyond

Despite the transparency and legality of the current EMC levy it is clear that the expectation of the Minister for Local Government is that this income stream be moved from a property charge to one collected as part of the general rates. Indigo Shire Council has responded to this recommendation and this application is a direct result.

This application to the ESC requests that the current EMC levy be rolled into the general rates income, and this requires the ESC's approval to increase general rates by \$802k in 2025/26 to match the \$802k decrease in fees. This would result in a revenue-neutral change to council and no additional ask of the community as a whole. There are some distributional changes that result from the Minister's preference for councils to use general rates, and this document explains how Indigo Shire Council plans to minimise these distributional impacts.

Section 2: Higher Cap Application

This section provides information in response to the legislative matters required for a higher rate cap application, as well as the requirements set out by the Essential Services Commission in the document titled *“Fair Go Rates System – Applying for a higher cap, Guidance for councils 2025-26”* (December 2024). Of note is the added guidance in this year’s ESC document that relates to the applications to respond to the Minister’s guidance.

The ESC’s guidance acknowledges that *“... a higher cap to only move service rates and charges revenue to general rates revenue won’t result in additional revenue for council nor will it have an impact on ratepayers overall”*. This context is important because it guides the consideration of the legislative framework, and therefore the level of analysis provided in this application. Specifically, the ESC guidance for 2025-26 provides the following clarifying statement: *“In applications where council is proposing no, or little, change in the total revenue it collects or the services delivered, the main impacts to the council, its community and ratepayers are likely to be distributional”*.

Indigo Shire Council welcomes this clarification and agrees that the main change arising from the Minister’s guidelines is the change in distributional burden that results when a property-based charge is converted to general rates and therefore calculated on an “ad-valorem” (property value) basis. The analysis of this distributional change is *therefore the subject of its own section below (in addition to the six legislative requirements)*.

Services covered by the current Environmental Management Charge

The ESC spreadsheet instructions require that *“The services that are being transferred, along with the cost of those services, should be set out in the council’s statement addressing the six legislative matters”*.

Indigo Shire Council provides a broad waste and recycling service to the community. This includes a kerbside service (not part of this application) as well as transfer stations, public area waste services, events etc.

The services that are funded by the current Environmental Management Levy are shown in the table below.

Waste service	Short definition
Public bins and other collections	Bins in public places and other contract collections
Street sweeping	Sweeping of streets
Hard waste collection	Collection of hard waste
Regional waste group costs	Participation in regional waste group and associated activities
Landfills	Assessment and monitoring of closed landfill sites as well as provision for rehabilitation
Transfer stations	Operation of council's transfer stations
Management overhead	Management of waste activities
Corporate overhead	Allocation of corporate overhead includes office accommodation, HR, executive function, customer service, OHS, Records management, cleaning, utilities, IT hardware & IT support, etc)
Event waste management	Management of event waste activities and bin supply
Other	Other costs including drum muster, Covid, response, legal costs, etc.

Six Legislative Matters

The following six sections address the six legislative matters that are required by section 185E(3) of the *Local Government Act* (1989) for a rate cap increase to be considered. In addition to these six legislative matters this application contains a discussion on distributional considerations of the proposed move from a levy to general rates.

Of the seven parts in this section of the application, council considers the three main matters applicable to the transfer of one income source (Environment Management contribution) to another (general rates) to be:

- Legislative Matter #5: Alternative Funding and Offsets. Has Council considered alternate ways to fund the waste service?
- Legislative Matter #6: Long-term Planning. Is the funding an appropriate level to transfer to general rates?
- Distributional Considerations. What are the impacts of changing from a set fee to general rates (calculated on property value).

The other four legislative considerations are included to show due consideration and to comply with the legislative requirements, but are considered by council to be less of a focus for this application because:

- Legislative Matter #1: Calculation. The proposed higher cap calculation is important for this application, however the result is no net change to either council or ratepayers. This is therefore a simple calculation to retain the status quo.
- Legislative Matter #2: Reasons. This application has been prompted by the Minister's guidelines, and if not for the Minister's position on this matter this council would have continued with the waste levies as a transparent way of raising revenue for waste services in a way that can be easily identified and tracked by the community. Therefore, the reason for this application is, at its core, to comply with the directive of the state government.
- Legislative Matter #3: Engagement. Council is responding to the Minister's guidance and would expect that the engagement performed by the Minister's office before creating the Guidelines would be sufficient for council to act without 79 local municipalities repeating the process. It is quite unusual for a council to do engagement with the community about whether they should, or should not, comply with other state government guidelines. Despite this, further Indigo Shire specific engagement is provided in this application to demonstrate that the local community was informed of this change and are either ambivalent or supportive of council making this application, with no objections being raised to the proposition.
- Legislative Matter #4: Efficiency and Value for Money. No change has been proposed to the current operation or overall cost to ratepayers. Despite this neutrality, further information is provided to demonstrate efficiency and value for money in order to confirm the proposed transfer quantum.

Legislative Matter #1: The proposed higher cap

As a one-off transfer from a fee to general rates this application is for a single rate cap increase in the 2025/26 financial year. This increased cap request is to simply replace the income from the EMC with income from general rates. This only needs to be done once. The calculation shown below does not result in any net increase in the cost to ratepayers as a group, nor does it change the total income that Council receives, this proposal is for a direct transfer of revenue sources from a service charge to general rates.

The attached ESC spreadsheet calculates the increase that would be required to transfer the EMC to general rates. It should be noted that the timing of this application requires Council to use estimates for the 2025/26 budget because the submission deadline for the Essential Services Commission is prior to the setting of the 2025/26 budget.

Rate cap inputs

How many years of higher caps is council applying for?

1

	2022-23	2023-24	Forecast Actual 2024-25	Budget 2025-26	Budget 2026-27	Budget 2027-28	Budget 2028-29
General rates	12,518,600	12,992,617	13,337,460	14,153,091	14,506,918	14,869,590	15,241,329
Municipal charges	2,850,965	2,957,630	3,060,346	3,538,272	3,626,728	3,717,396	3,810,330
(Total General rates and municipal charges)	15,369,565	15,950,247	16,397,806	17,691,363	18,133,646	18,586,986	19,051,659
Annualised supplementary general rates and municipal charges	43,370	51,409	52,951	54,275	55,632	57,023	58,448
Number of assessments as at 1 July (beginning of financial year)	9,191	9,254	9,317	9,380	9,443	9,507	9,571
Number of assessments as at 30 June (end of financial year)	9,254	9,317	9,380	9,443	9,507	9,571	9,636
Growth in annualised supplementary rates		0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Growth in number of assessments		0.7%	0.7%	0.7%	0.7%	0.7%	0.7%

Rate cap calculation

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Base average rate	1,666	1,717	1,754			
Capped average rate	1,724	1,760				
Rate increase applied for			7.54%			
Total increase in general rates and municipal charge revenue			1,293,557			
Increase in rate revenue without higher cap			491,933			
Increase above minister's cap			801,624			
Increase above minister's cap per property			85.46			

The result of the calculation is a rate increase for the 2025/26 year of **7.54%** instead of the capped rate of 3.0%. It is notable that:

- The average increased cost per property after the higher cap is applied (\$85.46) is similar to the current Environmental Services Levy (\$88.15) with the reduction in the average being from the difference between the number of properties with an EMC, and properties that pay rates.
- The total income for rates, municipal charge and waste levy is exactly the same for either scenario:
 - \$20,765,069** without a rate cap approval in 2025/26. Or;
 - \$20,765,069** for the 7.54% rate increase, and no Environmental Services Contribution.
- The estimated \$801,624 2025/26 EMC is based on the 2024/25 EMC total of \$778,276, plus 3% (being the 2025/26 rate cap).

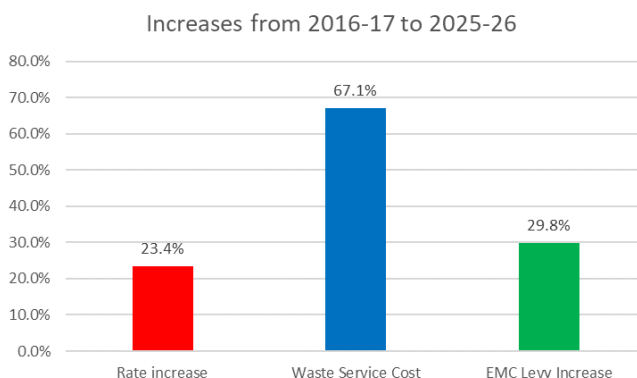
Legislative Matter #2: Reasons

The reason for the higher rate 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. This transfer does not raise any new overall revenue for council and does not increase the cost to the community as a whole. Instead, this is a simple transfer from one funding source (based on a per-property charge) to another (based on property value), to satisfy the Minister's guidelines.

The first section of this document provides a detailed background to the reason for Council arriving at the decision to apply for a rate cap increase and eliminate the EMC.

In addition to the reasons provided in the first part of this document the ESC guidance document asks for the following (with council's response in blue):

- The costs relating to its waste services, preferably over the last five years (to be included in the completed higher cap information template).
 - Completed in the spreadsheet.
- The waste services for which funding is proposed to be transferred from services rates and charges to general rates through the higher cap.
 - Shown in the spreadsheet.
- Whether the proposed higher cap will be revenue neutral for the council and, if not, clearly explain the reason(s) for this.
 - This application is for a revenue-neutral adjustment.
- Whether any change to its waste services is proposed.
 - No changes are proposed to the service scope or service level.
- Whether forecast waste costs that are proposed to be recovered from general rates and charges are forecast to increase by more than the estimated rate cap in future years and, if so, how the council proposes to manage this.
 - The historical costs of providing waste and recycling shows a higher than rate cap growth. Despite this, council has worked hard to constrain the growth in the Environmental Management Contribution, and the EMC increase over the last five years has been significantly less than the increase in the waste costs (shown in the graph below).

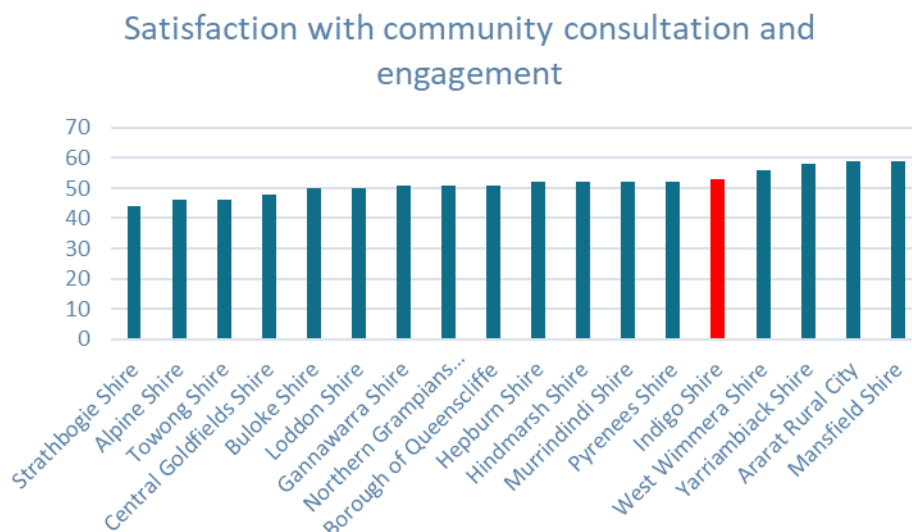


- In most years the EMC increase has been the same as the rate cap and for two years it was higher (in response to the higher service costs). If this trend continues then a future Council will need to decide on how this situation should be managed. The options are:
 1. Reduce waste/recycling service levels (scope or quality) to fit within the new capped budget.
 2. Find efficiencies elsewhere in council's budget.
 3. Apply for a rate cap increase to fund these essential services.

4. Re-introduce a waste levy to cover some/all of the costs of providing waste and recycling to the community. Note that a return to a levy arrangement would be done on a cost/revenue neutral basis.
- Whilst it is not possible to pre-determine the decisions of a future council, it is expected that a future council (when faced with this situation) would be motivated to find savings in the waste budget or broader organisation before considering rate cap variation requests or the re-introduction of a waste levy.
 - At this stage, council feels confident in its ability to manage this situation within the organisaitonal budget. This is based on:
 1. The amount being proposed to transfer from EMC to general rates (\$802k) is modest in the context of council's overall budget and therefore the difference between cost increases on \$802k and rate cap on \$802k is small.
 2. This council has kept the EMC increases to the annual rate cap in most years.

Legislative Matter #3: Engagement

Indigo Shire Council has a strong history of community consultation and engagement, and satisfaction with consultation and engagement is ranked in the top third of all small rural shire councils.



In regard to this submission, council is confident that sufficient consultation occurred as part of the 2024/25 budget build and that the community has been informed, and had an opportunity to comment on, the implementation of the Minister’s guidelines.

The consultation for this decision can be considered from three separate perspectives.

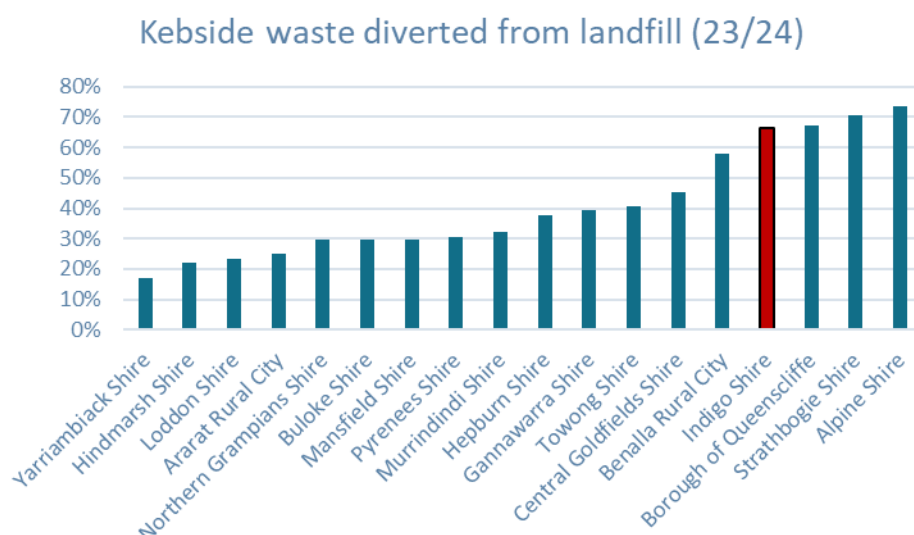
1. Does the community want and value the current waste and recycling services provided by council?, and;
2. Should Indigo Shire Council make the change from a waste levy to funding from general rates (via this rate cap application)?, or;
3. Instead of this application, should the Environmental Management Contribution charge be abolished with a corresponding cut in the waste services delivered by council?

1. Desire for Council’s Waste and Resource Recovery services

Indigo Shire Council has taken a leadership position in regard to the provision of waste and resource recovery services. These changes have been by the community. This section contains a number of examples of the support that is shown by the community for the current level of waste and recycling service.

Indigo Shire Council introduced compulsory green organics in June 2015 at a time when this was not a common offering by Victorian councils, and particularly small rural shires. This followed an initial trial of this service where results showed enthusiastic uptake of the service.

Despite its low cost, Indigo’s waste system effectiveness (measured through the proportion of waste diverted from landfill) is 66%. This result is significantly above the average for small shires (40%), as well as the average for all Victorian councils (49%). This is a result that this community takes pride in and the high uptake of green and hard recycling is a strong indication of the commitment of Indigo Shire residents to waste management.



Indigo Shire Council was one of the first councils in Victoria to introduce a PlasticWise Policy (2018). More recently council has commenced a 12-month soft plastics recycling trial that has already (in the first six months) removed over 9 tons of soft plastic from landfill. These examples show that the Indigo Shire community is very supportive of waste and recycling activities and active participants in resource recovery.

Council's waste activities are guided by the Resource Recovery & Waste Management Strategy (2019-2024). This strategy involved significant consultation with the community regarding the level of waste services as well as charging options. The following excerpt from the strategy describes the engagement of the community in the waste strategy as well as the strategic partnerships with community groups.

Community and partnerships

ISC's partnerships and community are some of our greatest strengths in achieving objectives of this Strategy.

Partnerships

ISC is a member council of the North East Waste and Resource Recovery Group (NEWRRG). This membership has multiple benefits:

- *Direct linkage to State Government waste agencies;*
- *Collaborative, group-led procurement for transfer station collection contracts;*
- *Annual budget for audits, studies and improvement projects; and*
- *Opportunity to meet and collaborate with counterparts from other councils on similar issues.*

ISC also partners with Councils in NSW, which provides the following benefits:

- *Use of the Albury Waste Management Centre (AWMC) – landfill and some recycling;*
- *Collaborative procurement of the kerbside collection contract;*
- *Joint funding of, and service from, Halve Waste and the education program; and*
- *Opportunity to meet and collaborate with counterparts from other councils on similar issues.*

Community engagement

ISC is fortunate to have a community that is highly engaged in responsible waste management. 99%

of survey respondents stated they were either very confident or usually confident about knowing how to segregate their waste.

Several volunteer community groups in the Shire actively work on campaigns aligned with the waste hierarchy, including:

- *Plasticwise Yackandandah.*
- *Plasticwise Beechworth.*
- *Plasticwise Chiltern.*
- *Plasticwise Stanley.*
- *Beechworth Boomerang Bags.*
- *Indigo Shire Tidy Towns Committee.*
- *Repair cafes – Beechworth and Rutherglen.*
- *Toy libraries – Beechworth and Yackandandah.*

ISC ran a community survey on our waste services as part of the development of this RRWMS. The survey was open from March 15- April 15 2019, and available in electronic and hard copy formats. 151 responses were received within the timeframe, from a range of Indigo Shire localities. Relevant results summarised and discussed throughout this report. The full survey results are included in the RRWMS background report and service review.

The strategy contains survey results that shows:

- 83% of respondents are very satisfied/satisfied/neutral on the performance of the public place (street and park) waste and recycling bin service.
- 92% of respondents are very satisfied/satisfied/neutral on the performance of the waste transfer station service.
- 96% of respondents believe that event waste management is either very important or somewhat important.

It is important to note that the services listed above are the ones that are currently funded by the EMC. This demonstrates strong community support for these activities and shows that they are demanded by the community and not optional.

One of the recommendations of the waste strategy was to discontinue one of the services (hard waste weekends) with cost being a contributing factor to this decision. This decision demonstrates council's ongoing challenge of balancing high (and increasing) waste costs with community affordability and limited financial resources.

2. Consultation on the decision to transfer the Environmental Management Contribution into General Rates

In addition to any state-wide ratepayer consultation that may have been undertaken by the Minister for Local Government as part of the formulation of the 2023 Guidelines document, Indigo Shire Council has undertaken local consultation in regard to its decision to implement this change on a local level.

The timing of the Minister's announcements in 2023 and 2024 aligned with the consideration of the 2024/25 draft budget, and this created an opportunity to combine the community consultation on these two related topics. The following is a summary of the consultation process for the waste management levy.

- At its February 2024 meeting Council received the following community question in the “Open Forum” section of the agenda:
 - The Minister for Local Government has published a paper on the correct financial procedures for the treatment of Special Charges in the Council Budget. Indigo Shire lists the Environmental Management Contribution as a special charge, within the shire budget. The Minister has indicated that all costs reported in Special Charges must conform with the requirements stated in her publication, effective March 1, 2024. Will the Council comply with the Minister’s directions and review their Special Charge, and reallocate all costs that do not meet her direction, prior to the preparation of the 2024/25 Budget?
 - The response from Greg Pinkerton, Director Planning & Corporate Services was: The Minister has published a Good Practice Guideline, and Council will seek to comply with this document. It is fairly early on in Council’s budget process, so we don’t have any details on how this looks currently, however it is Council’s intent to comply with the Minister’s Guidelines.
- At its April 2024 meeting Council received the following community question in the “Open Forum” section of the agenda:
 - The recent 2023-24 Council Budgets Summary report by Local Government Victoria (LGV) noted that service charge schemes are ostensibly being used to (part) fund general public services, similar to that collected by Indigo Shire Council’s EMC, as identified by the Ombudsman in April 2019. LGV also noted that while technically permissible, it is an inappropriate use of service charges and is being done intentionally to circumvent the State Government’s rate cap. Given the imminent tabling of the draft 2024/25 budget in May 2025, Council should be well aware of the expected incurred funds to be covered by General rates in 2024/25, rather than the EMC. Given the CEO’s commitment to comply with the Minister for Local Government’s guidelines and commitment to improve financial transparency, as identified in the Ombudsman’s 2018 letter, can the council provide an approximate estimate of the reallocation of funds from the Environmental Management Contribution (EMC) to General Rates?
 - The response from Trevor Ierino, Chief Executive Officer was: Similar to previous question on the budget, this will come to the Council meeting on 14 May 2024 and will address the issue of EMC and Ministerial best practice guidelines and how Council proposes to describe a path to compliance with those guidelines.
- Council’s draft budget was endorsed by Council at the May meeting.
- The draft budget report contained the following section (bold emphasis added):

Waste Management Charges

Indigo Shire sets its waste charges based on modelling that aims to recover only its projected costs over the long term. In any one year the financial result will vary depending on a number of factors including the estimated cost of landfill rehabilitation calculations. Council monitors this over several years to ensure an appropriate long-term position is maintained. Annual fluctuations can occur, therefore any one year may result in a surplus or a deficit position.

The Draft Budget proposes a number of adjustments to the waste fees. These changes are a result of a number of factors including the tendering and awarding of a new 10-year kerbside waste contract.

Charges for kerbside services in Council’s budget align with the Local Government Minister’s Good Practice Guidelines (the Guidelines) relating to waste service charges. For 2024/25 Budget a \$9.45 reduction per urban property, and an \$23.75 per property reduction per rural property is proposed. Indigo Shire also charges an “Environment Management Levy”. This covers the cost of waste management other than kerbside waste collection. This includes activities such as landfill rehabilitation, transfer station costs, street sweeping, street litter bins, event waste management. This levy has also been modelled to only cover the cost of these activities without making a surplus in the long run. It predates the inception of the “Rate Cap” by many years.

The Guidelines make other recommendations about linking waste management charges directly with those services provided directly to the property. It recommends that other waste related charges should be included in General Rates rather than waste management charges. In Indigo Shire's case this means that the costs currently recovered by the Environment Management Levy should instead be included in General Rates.

Full compliance with the Guidelines will require the discontinuing of the current Environmental Management Levy and a transfer of this charge to the General Rates. Under the current Rate Capping system employed in Victoria this change will require an application to the Essential Services Commission (ESC) to ensure that the transition is appropriate and does not negatively impact ratepayers or Council. Also, under the Rate Capping system it is not possible to secure an approval by the ESC in time for inclusion in this 2024/25 Budget.

It is therefore proposed that an application be made to the ESC to transfer the Environmental Management Levy to General Rates, with no net change in revenue overall, in other words, no additional cost to ratepayers overall. It is also proposed that this transfer occur in 12 months' time commencing with the 2025/26 Budget, at which point the Shire will be fully compliant with the Guidelines.

- The Draft Budget was placed on exhibition for a period of 21 days from Wednesday 15 May 2023 to close of business Tuesday 4 June, 2024.
- Council publicised the Draft Budget through its usual channels including newspaper advertisements, Council's website, council's weekly community email, and Facebook page.
- Two budget submitters made comment about the EMC:
 - *"The accounting controls associated with the [landfill] provision and EMC are quite different and unhelpful. The accumulated provision as a non-cash item is reported in the Annual Report but the EMC is only reported in the annual budgets and the amount transferred into general revenue where it is managed by the council finance team. The accumulated amount is not reported in the Annual Report".*
 - *"Council's charge scheme, called the Environmental Management Contribution (EMC) is questionable following local Government Victoria announcing that such a charge scheme bypassed the rate cap".*
- It is noted that the person who asked a question at the February 2024 Council Meeting about how council will comply with the Minister's guidelines also made an individual written submissions to the final budget. This written submission did not raise any objection to council's proposal to transfer from the EMC to general rates.
- Council met on 25 June 2024 to consider:
 - The submissions made in response to the Draft Budget (including the comments above).
 - The adoption of the budget.
- The budget report to Council contained the following section (bold emphasis added):

Waste Management Charges

Indigo Shire sets its waste charges based on modelling that aims to recovers only its projected costs over the long term. In any one year the financial result will vary depending on a number of factors including the estimated cost of landfill rehabilitation calculations. Council monitors this over several years to ensure an appropriate long-term position is maintained. Annual fluctuations can occur, therefore any one year may result in a surplus or a deficit position.

The Draft Budget proposes a number of adjustments to the waste fees. These changes are a result of a number of factors including the tendering and awarding of a new 10-year kerbside waste contract.

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reduction per urban property, and an \$23.75 per property reduction per rural property is proposed. Indigo Shire also charges an “Environment Management Levy”. This covers the cost of waste management other than kerbside waste collection. This includes activities such as landfill rehabilitation, transfer station costs, street sweeping, street litter bins, event waste management. This levy has also been modelled to only cover the cost of these activities without making a surplus in the long run. It predates the inception of the “Rate Cap” by many years.

The Guidelines make other recommendations about linking waste management charges directly with those services provided directly to the property. It recommends that other waste related charges should be included in General Rates rather than waste management charges. In Indigo Shire’s case this means that the costs currently recovered by the Environment Management Levy should instead be included in General Rates.

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It is therefore proposed that an application be made to the ESC to transfer the Environmental Management Levy to General Rates, with no net change in revenue overall, in other words, no additional cost to ratepayers overall. It is also proposed that this transfer occur in 12 months’ time commencing with the 2025/26 Budget, at which point the Shire will be fully compliant with the Guidelines.

- Council adopted the budget with a resolution that included the following part:
“10. Waste. Council endorses the path to compliance with the Minister for Local Government’s Good Practice Guidelines relating to waste service charges that is outlined in the body of this report, and the CEO be authorised to commence the process of converting the Environmental Management Contribution to General Rates, with no net financial impact on Council or ratepayers”.
- Following the adoption of the budget the final documents were published on Council’s website.

In summary, there were some early questions to council regarding compliance with the Minister’s guidelines. The Draft Budget (2024/25) consultation 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. No objections or concerns were raised by the community in response to this consultation.

Therefore, after due consideration and consultation with the community, Council adopted the final budget including a resolution to proceed down the path of a rate cap variation to transfer the current levy into general rates.

3. Should council simply abolish the EMC and reduce waste services by \$800k

As well as the options of a/ transferring the EMC to General rates (the subject of this application) or 2/ maintaining the EMC, there is a third theoretical option of removing the Environmental Management Levy without replacing that income. Because the EMC currently funds the waste and recycling service it would be appropriate for the savings (under this hypothetical scenario) to be made in waste and recycling services.

Despite being hypothesised in this application, Indigo Shire Council does not believe that the impacts of removing \$802k of waste/recycling service (described in more detail in a later section) are at all acceptable or appropriate. The closure of a significant amount of council’s waste service (including all of the transfer stations) would not be accepted

by the community and there are no plans to move in that direction while there are two valid and acceptable options available (being 1/ transfer the EMC to general rates, or 2/ continue to use the EMC as a legal option under the LGA).

Therefore, the option of removing the Environmental Management Contribution without replacing this income (and reducing the waste service to balance the lost income) has not been the subject of community consultation.

Legislative Matter #4: Efficiency and Value for Money

It is important to demonstrate to the community and ESC that Indigo Shire Council is efficient, cost effective, and providing value for money. Put in the context of this application, these two perspectives can be articulated as: “Could Indigo Shire Council abolish the current Environmental Management Contribution and absorb some or all of the cost within the waste budget or the total organisaitonal budget?’

This question is answered in three parts below:

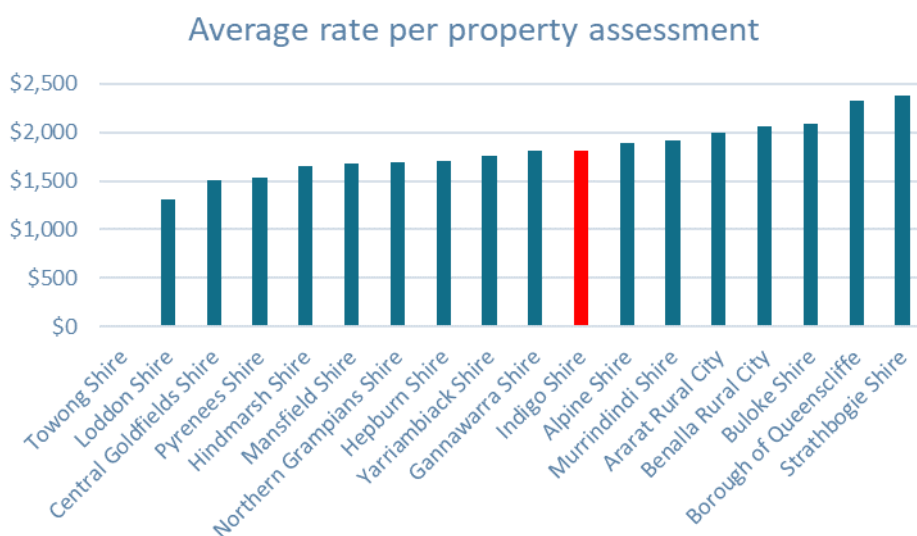
1. Organisational Efficiency.
2. Waste service efficiency and value for money.
3. Council’s efficiency and value systems.

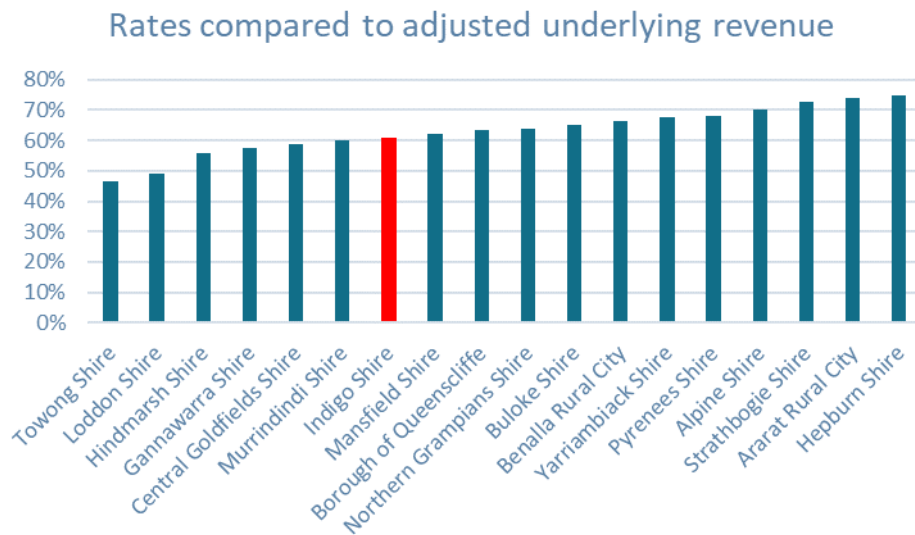
4.1 Organisational Efficiency

Indigo Shire Council is a small rural council that has a long history of efficient operations. This is best demonstrated in reference to the standardised and audited Local Government Performance Reporting Framework (LGPRF). The following information is taken from the latest (2023/24) results for small rural shires.

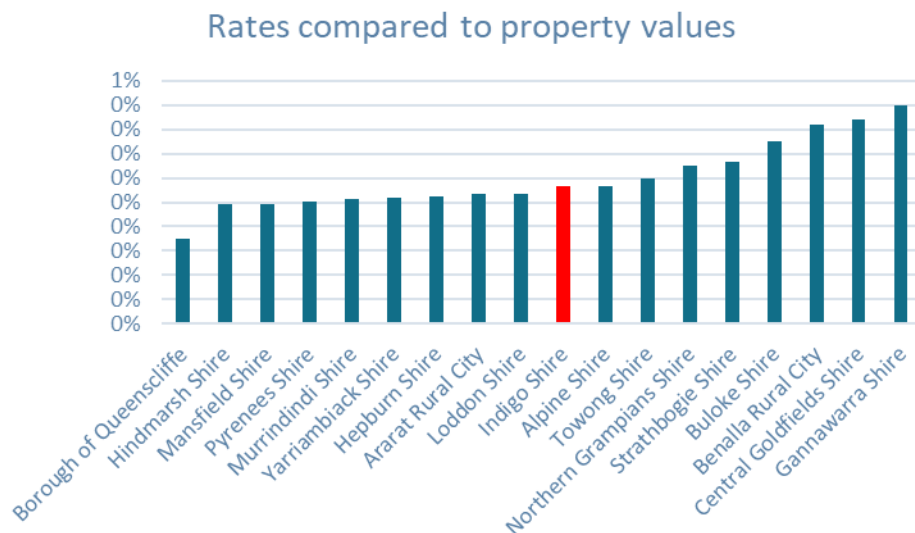
Rates and other income

Indigo Shire Council’s average rate per property (\$1,810) is slightly below the state average of \$1,860, and comparable to other ‘Small Rural’ shires.

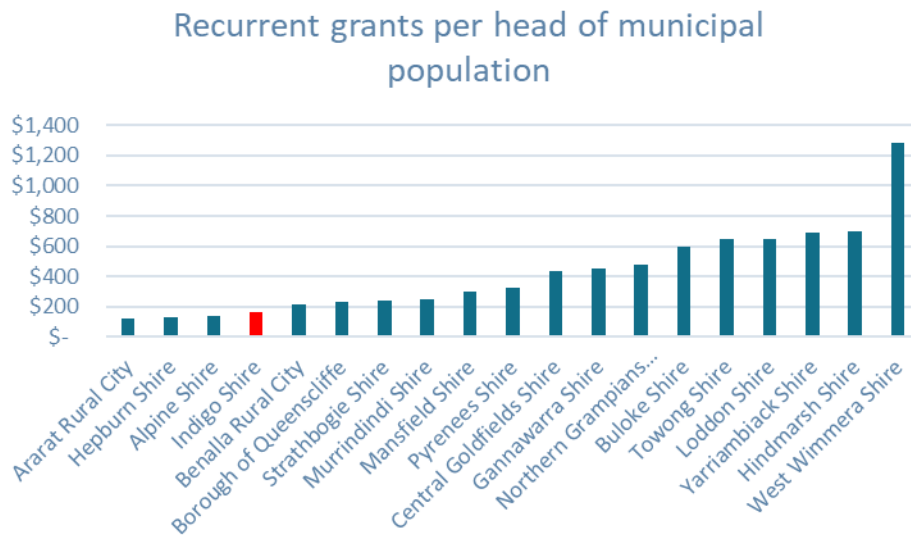




Rates compared to property value (0.28%) is also below the state average (0.29%) as well as the small rural category (0.29%), demonstrating efficient council operations and affordability for the Indigo community.



In addition to affordable rates, Indigo's share of recurrent grants per head of population (\$163) is significantly below the state average (\$216) and the small rural average (\$423).

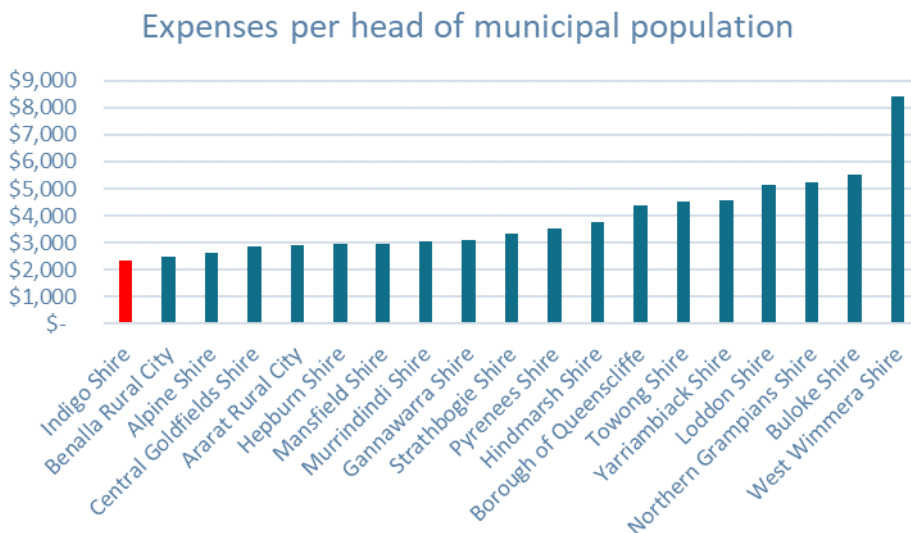


This leads to Indigo Shire Council having a lower income profile when compared to average Victorian councils, as well as when comparing to peer councils in the 'Small Rural' group.

Expenditure

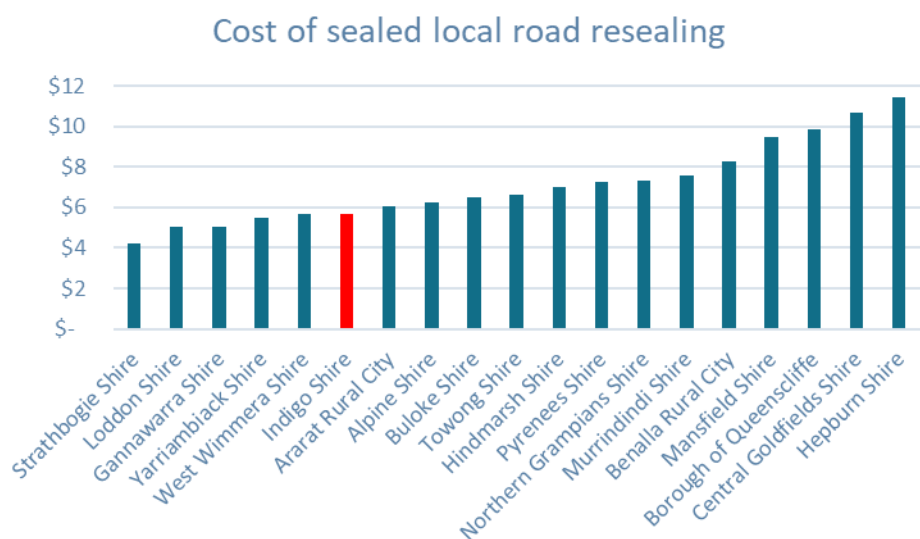
Indigo's lower than average income, combined with the usual service pressures, results in a necessarily efficient and lean organisation.

Indigo's expenses per head of municipal population (\$2,360) is the lowest in the small rural category, below the rural average (\$3,880) and state average (\$2,474).



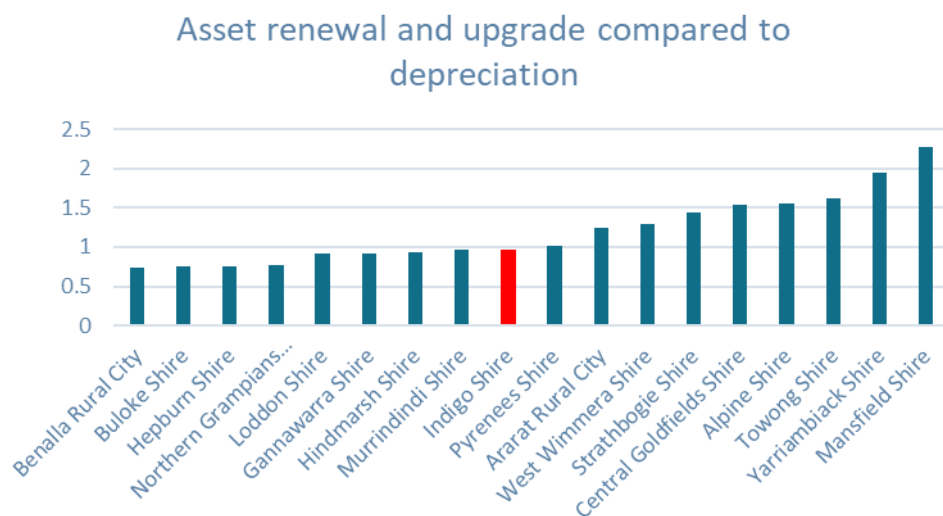
Expenses per property assessment (\$4,506) is slightly higher than the small rural average (\$4,063) and the state average (\$3,861).

Council's efficiency is seen in individual service areas such as the cost of local road resealing.

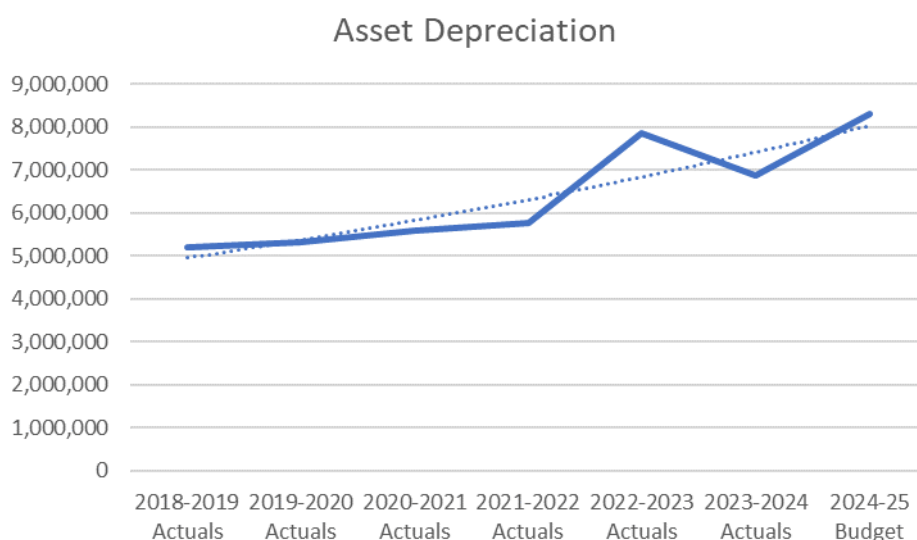


Asset renewal

Despite lower than average income, Indigo Shire Council is required to perform all of the usual roles and tasks required of a rural council. The Asset Renewal indicator demonstrates that, Indigo prioritises core responsibilities such as asset renewal.



Indigo Shire Council's commitment to asset renewal is challenging as the increasing valuations, and new assets add additional renewal expectations on each budget.



Depreciation has increased by \$3,096,575 (60%) in the last six years (from \$5,197,475 in 2018/19 to \$8,295,051 in 2024/25). This results in an average increase of \$516,262 per year in depreciation, and therefore renewal expenditure each year. This new annual renewal demand alone negates council's annual rate increase.

Council's policy of funding renewals (benchmarked as 100% of the annual asset depreciation) comes under pressure under rate capping and this pressure is one of the drivers of the recent finding by the Victorian Legislative Council Economy and Infrastructure Committee in their report on *Local government funding and services* (2024).

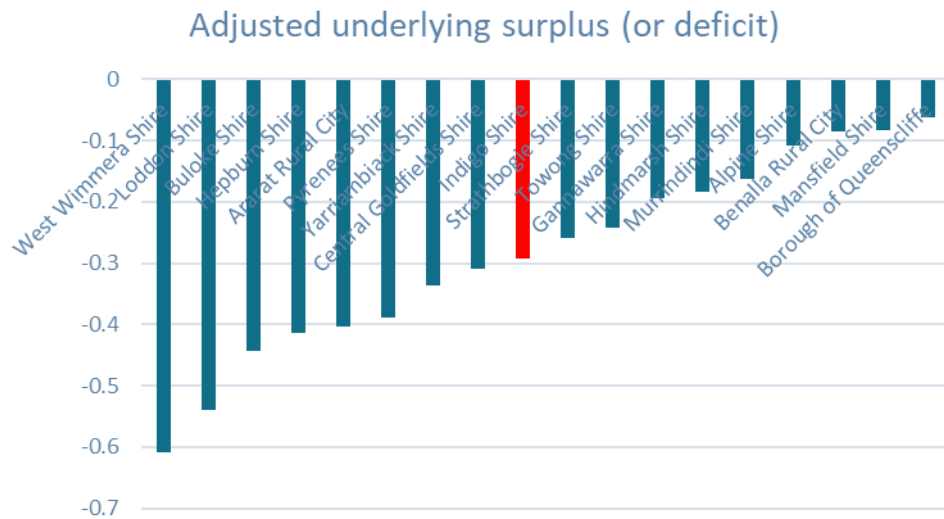
FINDING 8: Not all Victorian councils are spending enough on asset renewal to match depreciation. While some councils are meeting their asset renewal and upgrade requirements, there is significant variation in the performance of councils and many face a growing renewal gap. No council has an asset renewal ratio of 100% when asset renewal alone is considered.

This shows that:

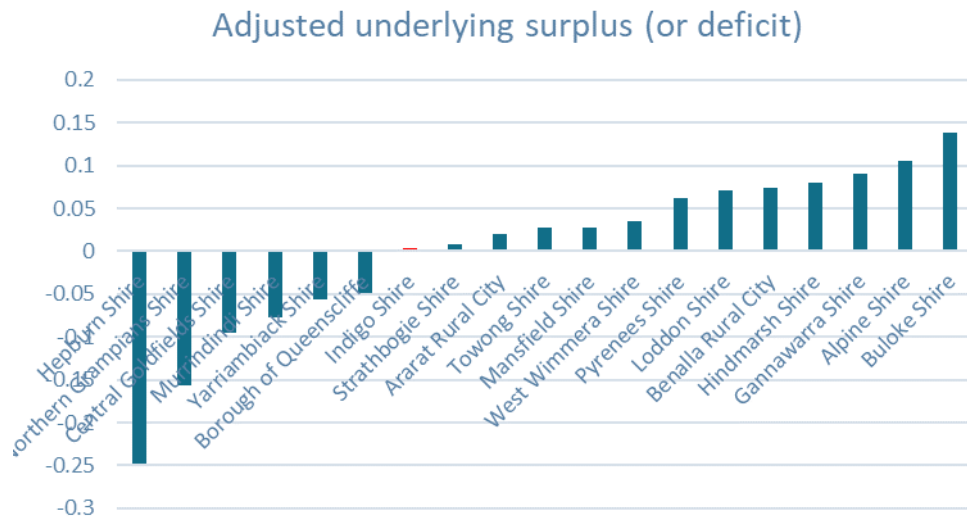
- Asset renewal is a significant and increasing challenge for Indigo Shire Council that will reduce financial sustainability over time.
- The renewal demand increase alone absorbs more than the annual rate increase, leaving no additional revenue from rates to fund service operations.
- Asset renewal is not an area that this council can reduce in order to replace revenue lost by the removal of the Environmental Management Contribution.

Underlying surplus

Indigo Shire Council's underlying surplus was impacted in 2023/24 by the timing of the Financial Assistance Grants, along with all other Victorian councils. In relative terms, the 2023/24 Indigo shire underlying deficit was mid-pack in the 'Small Rural' category.



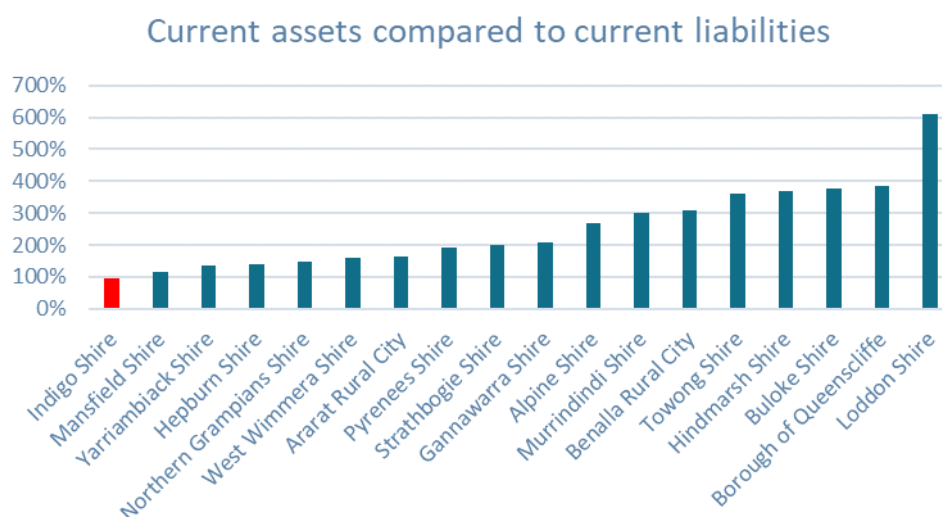
The previous year show a similar mid-pack result.



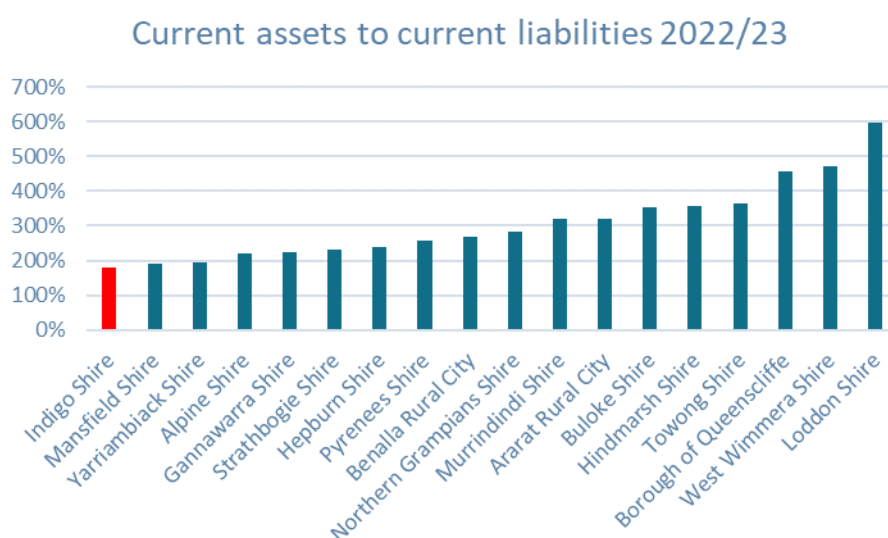
This demonstrates that Indigo Shire Council is not in a surplus position that would enable it to absorb \$802k of lost EMC revenue.

Liquidity

Indigo Shire's liquidity (measured by current assets to current liabilities) as the lowest of the 'Small Rural' category in 203/24.



The previous year was higher (due to the timing of the FAGS grant that impacted 2023/24), but still shows Indigo as the lowest of the ‘Small Rural’ shires.



In summary, as a small rural council that is already running on a very tight budget and unable to increase revenue, the financial position of Indigo Shire Council is not buoyant enough that it is able to absorb the EMC without replacing this income with a general rates increase.

4.2 Waste Service Efficiency and Value for Money

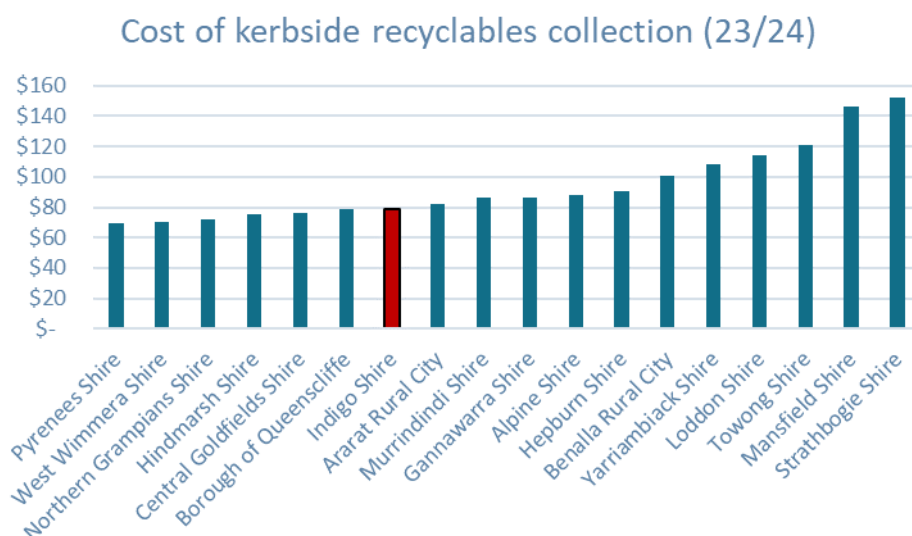
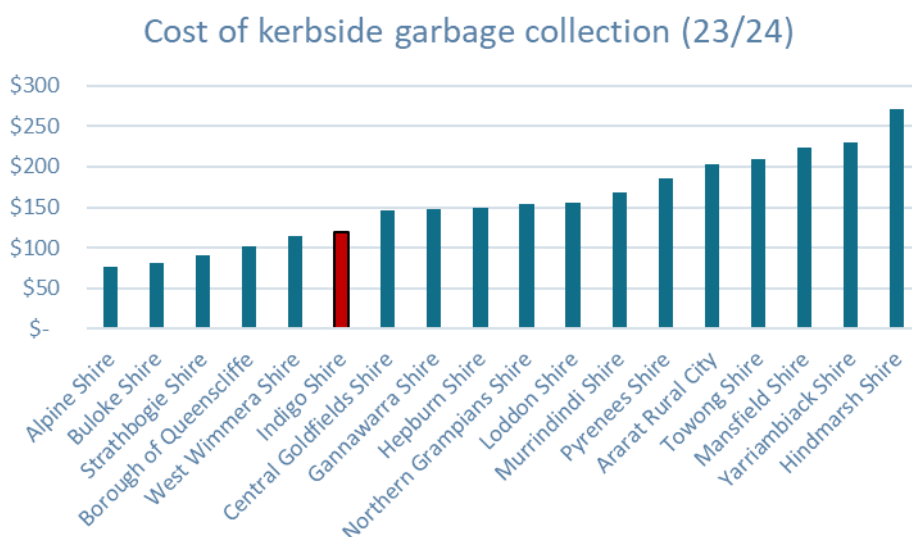
Indigo Shire council is a leader in waste and recycling services and achieves performance targets above the state average as well as the average for small rural councils. At the same time, Indigo Shire Council’s waste service costs are below the industry benchmarks and the combination of high service performance and low-cost base results in a value for money service that exceeds the industry standards.

This is the result of a deliberate strategy of minimising waste, providing an appropriate service level, and driving down costs. The Resource Recovery & Waste Management Strategy (2019-2024) articulates a primary objective to “Reduce total volume of waste disposed of to landfill (per capita)” with secondary objectives of (highlight added):

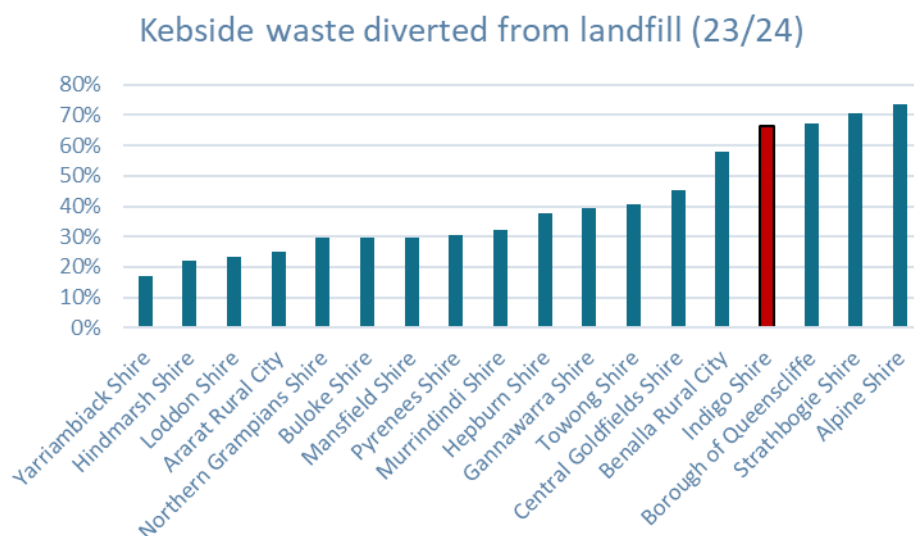
- *Encourage innovation and continual improvement in waste services.*

- *Prioritise the waste management hierarchy when making decisions about waste management.*
- *Engage the community to achieve behaviour change that reduces waste generation and increases resource recovery.*
- *Continually improve on diversion and contamination rates.*
- ***Provide an efficient and cost-effective service that meets the community's needs (most of the community's needs, most of the time).***
- *Leverage partnerships and grant funding to maximise our efforts.*
- *Plan for future waste and resource recovery infrastructure and service needs of the community.*
- *Responsibly manage waste facilities to minimise the risk of pollution.*

Indigo Shire Council is part by a collaboration with five other regional municipalities, and this assists with keeping waste service costs to a low level.



Despite this low cost, Indigo’s waste system effectiveness (measured through the proportion of waste diverted from landfill) is 66%. This result is above average for small shires (40%), as well as the average for all Victorian councils (49%). This is a result that this community takes pride in.



Cost breakdown

The attached ESC spreadsheet provides cost data for the past five years. This shows the breakdown of waste and recycling costs and demonstrates a growth rate of approximately 34% in operating costs over this time (7% per year).

It must be noted that waste costs are inherently ‘lumpy’ due to the unpredictable nature of the landfill rehabilitation costs. In the past five years the landfill costs have moved significantly in both a positive and negative direction. This significant cost is driven by changes in landfill rehabilitation standards, technological improvements, environmental legislation, and market forces for suitable contractors. This makes it difficult to accurately predict the future costs of the waste and recycling service, other than a confident assertion that the growth rate will continue to be significantly higher than the rate cap.

The ESC guidance on submitting an application for the 2025-26 financial year says:

“...if the waste costs that will be recovered through general rates and charges going forward are forecast to increase by more than the rate cap in the future, we expect the council to demonstrate it has given thought to how these costs will be managed within the rate cap”.

Council has considered this situation and believe that there are a number of options that are available if waste costs increase greater than the rate cap:

1. Find offsetting efficiencies in the waste service or broader organisation.
2. Reduce waste/recycling service levels (scope or quality) to fit within the capped budget.
3. Apply for a rate cap increase to fund these essential services.
4. Re-introduce a waste levy to cover some/all of the costs of providing waste and recycling to the community. Note that a return to a levy arrangement would be done on a cost/revenue neutral basis.

Because the proposed transfer from EMC to rates is limited to \$802k (2025/26 budget estimate) the impact of capping this amount of income is relatively moderate. As discussed earlier, council has maintained a protocol of only increasing the EMC by rate cap unless an increase is absolutely necessary, and therefore the change from a levy to general rates is not expected to have a significant impact on the provision of waste service. Therefore council expects

that, of the options listed above, it is likely that council will be able to find offsetting efficiencies in the waste service or boarder organisation (option 1 above).

4.3 Council's efficiency and value systems

Indigo Shire Council has several internal systems that have been used for many years to ensure lean, value-for-money service delivery to the community. This section outlines some of these as a way of demonstrating Indigo Shire Council's continuous commitment to lean and efficient operations.

As a mechanism for continuous improvement and efficiency, Indigo Shire Council performs regular reviews of each service. Each of Council's services are scheduled for a review every 5 years. The service review methodology used at Indigo is The Australian Centre of Excellence for Local Government (ACELG) *Service Delivery Review: A How-to Manual for Local Government*. This methodology concentrates on reviewing the service for appropriateness, efficiency, and effectiveness.

In addition to the 5-yearly service reviews, each Service Manager completes an annual Service Plan that wholistically plans the following financial years' service delivery to ensure that it responds to the needs and desires of the community. Part of this process is the continued search for efficiencies. Service Managers are tasked with the goal of achieving a sub-rate cap growth target as a way of subsidising the high growth areas of council that are not able to conform to a rate-capped environment.

The waste service last performed a service review in June 2020 and found that the service is operating efficiently and effectively. It also found:

- There was no scope to reduce expenditure in waste services.
- High satisfaction and demand for the services funded by the EMC.
- Demand for additional waste service.

Indigo Shire Council's Procurement Policy (2021) highlights the focus that council has on achieving efficiency and value for money. The following statements are taken from the policy:

- "The purpose of the Procurement Policy is to ensure all of Council's procurement activity achieves value for money".
- "Council is committed to ensuring its purchasing practices encourage a competitive environment that is fair and transparent, aligned with Council's objectives, compliant with legislative requirements and that Council's procurement practices are sustainable and deliver value for money".
- "Council will seek to maximise value for money in all procurement decisions".
- "The cost of a good or a service is one element of the decision. Generally speaking it is one of the most important considerations, but must be balanced against other value elements".
- "Where Council engages in a collaborative procurement process with other organisations it is not practical or efficient for each organisation to individually apply their own procurement requirements" (this is very relevant to the multi-council waste contracts that Indigo Shire uses).

In the case of the waste and recycling contract these principles were demonstrated through the 2023 joint tender for waste services (including some that are covered by the current EMC). This was a joint tender of five councils from both sides of the Vic/NSW border. This process ensures a strong market test with a large consortium of councils (prompting several competitive tender responses). The scope of this contract and the inclusion of multiple councils ensures a best-practice procurement process.

Legislative Matter #5: Alternative Funding and Offsets

The ESC guidance suggests that there are three main options that may be available to councils that are considering a transfer of a waste levy to general rates. These are:

1. Continue to provide the same waste services but remove the relevant service rates and charges without increasing general rates and charges (forego the revenue).
2. Cut or reduce the relevant waste services.
3. Reduce expenditure in other areas of the council's budget.

These are discussed below, however one additional option (to continue with the current EMC) opens the discussion because it is important to context the three following options with the most appropriate fall-back position (continuation of the EMC).

Fall-back: Continue with the current Environmental Management Charge

The use of a service rate/charge has been, and continues to be, a legal and transparent option that is authorised by section 162 of the *Local Government Act* (1989).

162 Service rate and service charge

(1) A Council may declare a service rate or an annual service charge or any combination of such a rate and charge for any of the following services—

** * * * **

(b) waste, recycling or resource recovery services;

** * * * **

(d) any other prescribed service.

(2) A service rate or service charge may be declared on the basis of any criteria specified by the Council in the rate or charge.

The Minister's March 2024 clarification letter states that: "*I acknowledge that Ministerial Good Practice Guidelines [to cease using property-based levies] issued under s.87 of the Local Government Act 2020 are not mandatory and are not enforceable*".

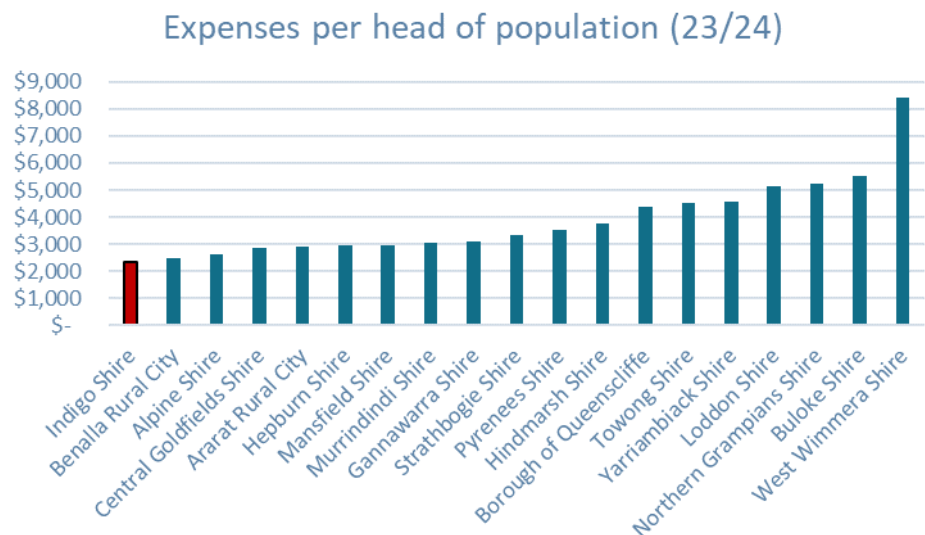
It is therefore an option available to councils to simply continue to use a waste levy to fund waste and recycling services. Several councils have already chosen to take that path for 2025/26. If this application to move the EMC to general rates is not successful then Indigo Shire Council will have no other financially sustainable option than to continue with the Environmental Management Charge under s.162 of the LGA.

This clarification is important context for the discussion of options below because some of the options discussed are likely to be quite unacceptable to the Indigo Shire community, and it is important to ensure that the Indigo Shire community is aware that there is no intent to reduce service levels to the community.

Option1 : Continue to provide the same waste services but remove the relevant service rates and charges without increasing general rates and charges (forego the revenue)

This option is to remove \$802k of revenue from council’s 2025/26 budget and find efficiencies throughout the organisation to cover the shortfall in waste.

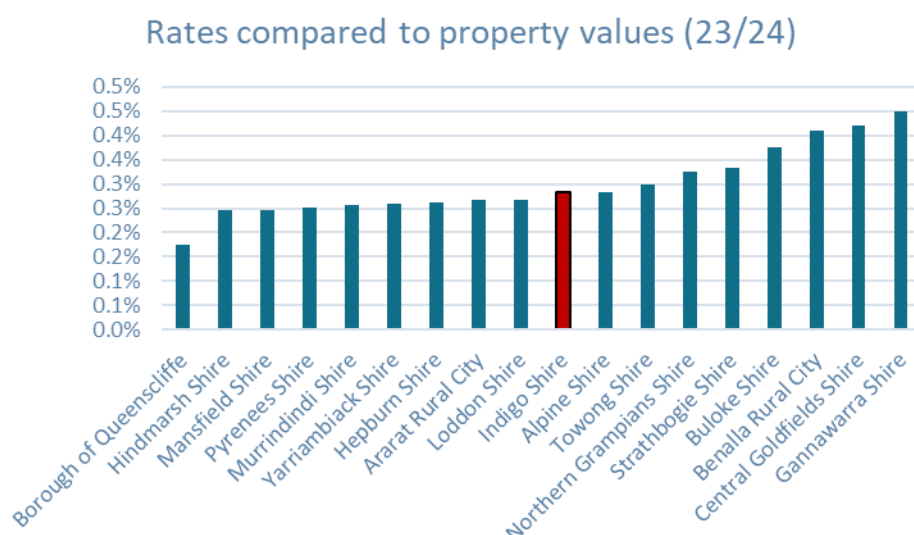
Indigo Shire Council does not have surplus funding or excess spending to allow for \$802k to be simply absorbed in the organisation. This council is already operating on a very low cost base in comparison to industry benchmarks whilst still providing the same core services as the other 78 Victorian councils. This cost efficiency can be seen in the LGPRF data that shows that council expenses per head of population is the lowest in the ‘Small Rural’ category.



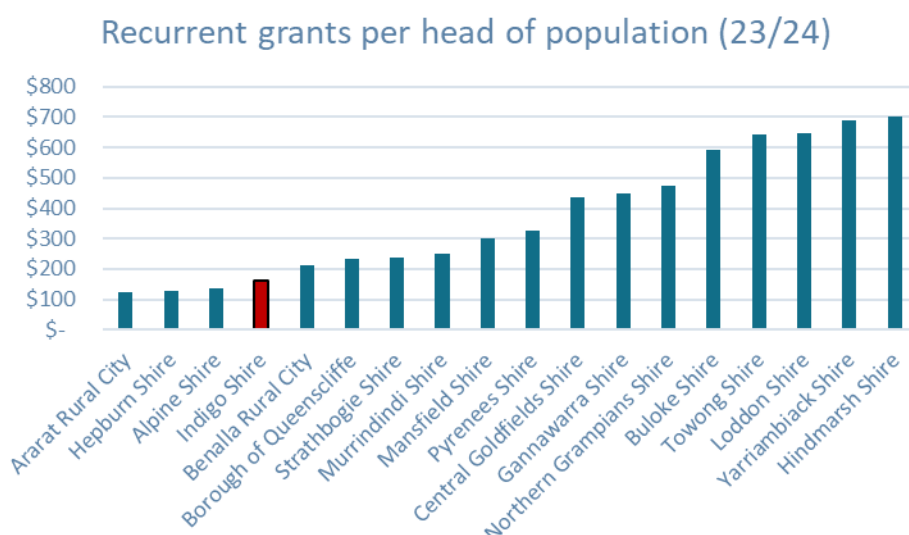
This is the result of decades of efficiencies and tight budgets that has allowed Indigo Shire Council to operate a large municipality (with the need to replicate core services in multiple towns) and maintain a large road and infrastructure portfolio, with modest rate levels (as shown below in the LGPRF indicator comparing rates to property values). Council’s systematic review of all service areas and detailed annual planning (discussed in the “4.3 Council’s efficiency and value systems” section above) demonstrates that all available efficiency options were implemented many years ago, and Indigo Shire Council now runs on a very lean budget.

As a result of this tight spending, the community often advocates for increased services. Many years of annual consultations on council’s budget and council plan shows consistent calls from the community for more spending in areas such as footpaths, drainage, road maintenance, trail maintenance, public open spaces, enforcement, etc. In short, the appetite from the community is for more rather than less spending on services, and the option of further reducing support to the community (though absorbing a \$802k reduction in income) would be in stark contrast to the community’s desires.

As well as tight budgets, Indigo Shire Council is known for its affordable rates, with consistently low rates compared to the Victorian benchmark, and in the middle of the small rural category.



Apart from rates and charges, Indigo Shire Council also receives income from recurrent grants. The graph below demonstrates that Indigo Shire Council's recurrent grant income is amongst the lowest in the small rural category.



In addition to the LGPRF indicators shown above, council's long-term forecasting shows that all available revenue is required to run the core services of council and a modest capital works program.

Industry Outlook

An important context for this discussion is the growing pressures of operating government services in a rate-capped environment. Councils across Victoria are experiencing a growing pressure of increasing costs. Because councils operate in an industry that experiences cost increases beyond 'consumer' price increases the CPI-based rate cap increase does not adequately fund council services. In addition to this, continued cost shift from state and federal governments, increased community needs, and capped income levels add to the financial sustainability challenges.

Recently the Victorian Legislative Council Economy and Infrastructure Committee tabled a report on *Local government funding and services* (2024). The findings and actions from this inquiry highlight the sector-wide sustainability issues that are currently emerging. This inquiry's findings provide a snapshot of some of the financial sustainability challenges faced by Victorian councils, and smaller rural councils in particular.

- FINDING 1: The costs of infrastructure and service delivery have risen at a pace that outstrips the growth in grant funding.
- FINDING 3: Local councils are facing increased budget pressures due to cost shifting by state and federal governments. Without substantial changes, the financial sustainability of council operations is at risk, with some services already being reduced or discontinued entirely.
- FINDING 5: There are several issues that disincentivise councils applying to the Essential Services Commission for a higher rate cap. These include:
 - a burdensome administrative process to apply
 - concerns about community backlash; and
 - concerns about the capacity of residents to afford higher rates, particularly in large and small shire councils.
- FINDING 7: Expenditure has grown faster than council revenue in recent years. Growth is primarily driven by the steady increase in operating expenditure, which makes up the majority of council spending. Capital expenditure has also risen over this period, but varies from year to year and council to council.
- FINDING 9: Councils face increased asset renewal costs if they do not prioritise early and ongoing renewal in an asset's lifecycle. A failure to keep up with asset renewal results in more expensive repair and replacement costs.
- FINDING 11: The renewal and upgrade of roads and bridges are a significant cost pressure, particularly for large and small shire councils due to their geographic size and comparatively small rate base. Grants programs, including Federal Assistance Grants, have regard for these issues when awarding funding. However, it remains a threat to the ongoing financial sustainability of rural and regional councils.
- FINDING 12: Victorian councils have faced significant increases in the cost of delivering infrastructure. This is due to a rise in the cost of labour and materials. Increased infrastructure costs constitute a significant financial pressure for growth area councils who are responsible for delivering new infrastructure for their growing communities.
- FINDING 14: Extreme weather events driven by climate change are a significant cost pressure on Victorian councils. Among other things, this includes:
 - disaster relief efforts, including staff resourcing
 - insurance premiums
 - the repair of damaged infrastructure; and
 - the proactive maintenance or upgrade of infrastructure to improve climate resilience.
- FINDING 16: The cash reserves held by Victoria's local government sector as a whole are currently adequate, but are showing signs of ongoing deterioration.
- FINDING 19: Victorian councils face a trend of deteriorating financial sustainability across all council types, a trend predicted to continue over the next five to ten years, due at least in part to cost shifting.
- FINDING 20: Rate capping and cost shifting has significantly constrained councils' revenue, and is a key threat to ongoing financial sustainability.
- FINDING 27: Council asset pools requiring management exacerbate financial sustainability challenges for councils in the long term. This is of particular concern to smaller, rural and regional councils who have more a limited financial capability to meet ongoing operating, maintenance and renewal costs.
- FINDING 28: Limited capacity to meet long term operating, maintenance and renewal costs is deterring smaller rural and regional councils from applying for new asset grant programs.
- FINDING 29: Failing to acknowledge resource disparities between councils may result in grant funding being diverted away from deserving projects in rural and regional areas to councils with the capacity to prepare high quality grant applications.
- FINDING 31: While co-contribution grant programs can be beneficial in delivering an increased number of services, this requirement prevents some lesser resourced smaller rural and regional Councils from applying for grants.

- FINDING 32: Overly onerous auditing and reporting requirements are deterring smaller and less-resourced councils from participating in important grant programs.
- FINDING 39: The Victorian Government has failed to maintain a 50/50 shared funding agreement for public libraries, placing a significant financial burden on local councils.
- FINDING 40: The Victorian Government has significantly reduced funding for the School Crossing Supervisor program and has failed to uphold its agreed equal funding arrangement with local councils. This has placed additional financial pressure on councils and risks the sustainability of this important service.
- FINDING 41: Ongoing increases in the waste levy are a financial burden for some Victorian councils.
- FINDING 42: Councils who use the Department of Health's Central Immunisation Records Victoria have been informed they will be charged an ongoing fee to access the system. Councils reported this is in contravention of assurances that ongoing access to the scheme would remain free.
- FINDING 43: In some cases, councils who have agreements to maintain State Government assets or Crown land are not adequately funded to do so.
- FINDING 44: The existing funding model for Maternal and Child Health services places an excessive financial burden on local governments, particularly regarding immunisations, staffing, and facility costs, threatening the long-term sustainability of these services.
- FINDING 45: Many statutory service fees charged by local councils, including planning fees, are set by the Victorian Government. These fees are set too low for some councils to recover the cost of providing the service.
- FINDING 47: There is a lack of Victorian Government coordination and oversight on the nature and extent of cost shifting that has been mandated by the State Government on local councils.

At the time of writing this application, Indigo Shire Council is contemplating a Financial Sustainability Strategy to be produced during the 2025/26 year. These strategies are becoming more prevalent in Victorian councils and are being created to articulate the financial sustainability challenges being faced by councils under the rate cap. A financial sustainability strategy sets out the trade-offs and changes that will be required to allow councils to operate in this ever-tightening financial environment

In summing up option 1 it is clear that not only is Indigo Shire Council unable to absorb the \$802k of lost revenue, but it would be irresponsible to reduce council's income in the current environment of declining financial sustainability that is being faced by all Victorian councils.

Option 2: Cut or reduce the relevant waste service

Council's waste service is relatively simple and can be thought of in three parts:

1. Kerbside collection. This is provided under a contract with Cleanaway and is funded using a fee structure that recoups the cost of the service (in accordance with the Ministers guidelines).
2. Other waste services such as transfer stations, parks and gardens, street sweeping, event waste services, etc. These services are currently funded by the EMC.
3. Management and administration. This covers staff to run the waste service as well as associated costs such as legal fees, etc.

The annual costs (2024/25 budget) for the waste service are shown in the attached spreadsheet.

If the kerbside collection contract is removed from this total (kerbside collection is not the subject of this ESC application), the remaining waste services (mainly transfer stations) cost council \$1,041,084. Without needing to dive deeper into this scenario, it is immediately clear that the removal of \$778,276 of income (the EMC for 2024/25) from

the \$1,041,084 total would necessitate the near-complete abolition of all other waste and recycling services in order to balance this lost revenue.

Recent community consultation for the 2025-2030 Council Plan indicated a desire for more transfer station services not less, and the closure of all waste and recycling services (apart from the kerbside collection contract) is not a reasonable or viable option.

Finally, Council's Resource recovery & Waste Strategy (2019-2024) provides many examples of community support for the waste and recycling services provided by council. A survey that was conducted as part of building this strategy indicated strong support for waste services, including those funded by the EMC.

In summary, the reduction of the waste budget to cover the EMC would close all waste and recycling services except for the weekly kerbside service. In a shire of 17,000 people it is inconceivable that council would close all transfer stations, stop collections from public parks and public areas, no longer provide any bins for the many tourism events that happen every year, stop sweeping the streets, and walk away from the community partnerships and programs that work to reduce waste.

Option 3: Reduce expenditure in other areas of the council's budget

To provide a relative sense of scale for this option analysis, the table below shows the services that Council provides to the community that are lower in annual cost than the total annual EMC revenue.

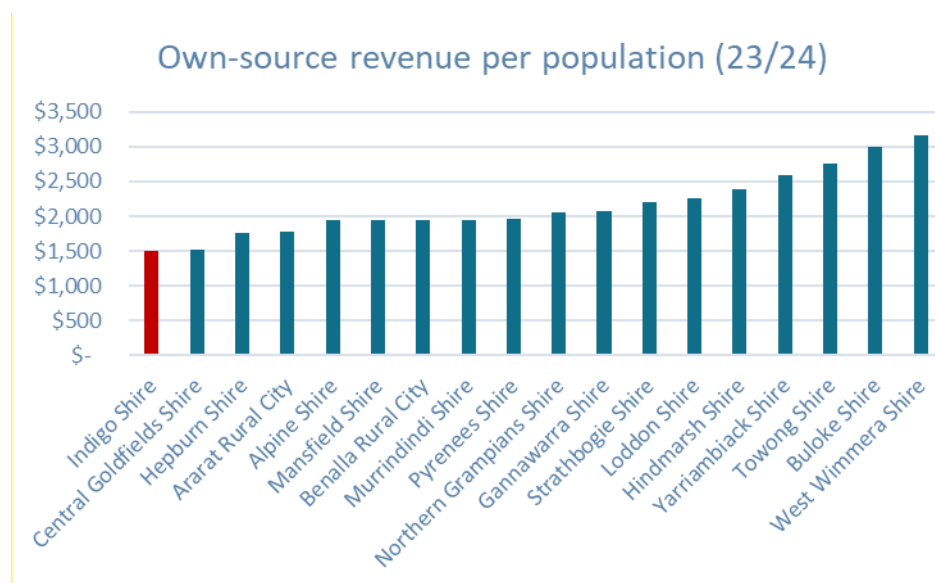
Service	3-Year ave cost
Young People	\$ 47,205
Local Laws & Animals	\$ 77,168
Ageing Well	\$ 92,691
Drainage	\$ 107,781
Development Engineering	\$ 127,963
Information Management	\$ 161,947
Pathways	\$ 198,356
Building Control Services	\$ 206,031
Early Years	\$ 220,005
Governance	\$ 232,344
Economic Development	\$ 252,770
Plant Equipment & Fleet	\$ 293,437
Asset Management	\$ 303,850
Communications	\$ 311,618
Capital Works - Management	\$ 335,696
Environment & Sustainability	\$ 343,100
Community Development	\$ 514,403
Customer Experience	\$ 575,162
Tourism Development	\$ 668,982
Tree Services	\$ 719,705
Recreation	\$ 760,295

This table shows 21 services (out of council's 38 services) that have annual budgets that are less than the \$802k of revenue that would need to be recouped under this option. Further, the combined total of the lowest six services is still less than the annual EMC income. With more than half of council's services under this \$802k mark it is clear that losing the EMC revenue is an option that would require deep and significant cuts to services.

Another perspective on the size of the impact of a \$802k cut to services is the quantum of this compared to council's annual discretionary budget. Each year budget managers build a like-for-like' base budget that only permits rate cap increases (often management sets a lower than cap target). In addition to this like-for-like budget a number of

budget bids for new service enhancements or projects are considered – mainly to deliver Council Plan actions. Each year at Indigo Shire Council it is possible to allocate approximately \$300k to \$400k for these new budget bids and competition is tight for this funding. Often council must refuse important budget bids because the budget simply cannot be stretched far enough to accommodate them. In a good year the budget bid pool can reach almost \$400k, but often it is \$350k or less. Management and Council work hard to find every dollar that can boost these activities because this is where the important community strategies (such as the Council Plan) are enacted. If Indigo Shire Council was required to save \$802k by cutting services these budget bid projects would almost certainly need to be eliminated, effectively negating the entire 4-year Council Plan actions (along with every other strategic plan that council has adopted).

As part of this analysis, council considered the ability for some (or all) of the EMC to be covered by fee (or other revenue) increases. Again, the LGPRF indicators demonstrate that Indigo Shire Council operates on a tight budget – including own-source revenue.



The listing below shows Indigo Shire Council's 2024/25 annual budget for discretionary fees (excluding statutory fees).

Account	2024/25 Annual Budget
Income	
1300. Rental Income	154,614
1350. LL - Local Laws Fee	38,200
1353. Information Statements	24,156
1360. Road Opening - Fee	13,500
1362. Stormwater Drainage Requests	9,732
1500. Venue Hire	16,850
1501. Fees - Entry	137,400
1505. Lease Income	23,716
1506. Fees	131,074
1510. Fees - Research	2,364

1512. Memberships	2,400
1514. Photocopying	410
1523. Ticket Sales	990
1533. Lifetime Tags	4,600
1534. Bike Hire	10,000
1535. Group Bookings	63,650
1550. Merchandise Sales	220,070
1552. Commission	280
1556. Sale of Stock	90,000
1558. Follow The Pioneers Brochure	450
1560. Sales of Recycables	115,200
1600. Recovery - Legal Costs	0
1601. Miscellaneous Income	7,200
1602. Donations	4,000
Total Income	1,070,856

As can be seen from this table, there is very limited ability for Indigo Shire to increase discretionary fees to the level required to cover the loss of \$778,276 that is currently raised by the Environmental Management Contribution. To do this would require that all fees increase by approximately 73%.

Apart from the community concern that a large fee increase would cause, the raising of fees to such an extreme level would introduce distributional concerns that far outweigh the distributional questions raised by moving the current Environmental Management Contribution into general rates. For example, it would not be appropriate to expect tourists to pay 73% more for tourism merchandise in order to subsidise local waste and recycling. Nor would it be reasonable to increase hall bookings by 73% for the same purpose. There would be simply no logical connection between these fee increases and the use of the funds.

Finally, Council has set the fees for the various services at a level that is considered to be reasonable for the services offered. It is expected that a significant increase to user fees (to replace the Environmental Management Contribution) would result in a material reduction in the use of these services. The double-edged impact of this would be 1/ a reduction in people using these service options and 2/ Council failing to replace the lost revenue from the Environmental management contribution due to reduced participation.

Summarising this option, council has considered the alternative of reducing services to replace the EMC income and ruled this out because the impact in this very small budget would be devastating, resulting in a significant reduction in the services offer to the community. With an already-low rates base, and constant requests form the community for increased services, and a viable alternative (or continuing to use the EMC in accordance with the LGA), it is not at all reasonable to reduce services to cover the EMC.

Legislative Matter #6: Long-term Financial Planning

The ESC has stated that:

We expect a council to demonstrate:

- *it has a long-term need to retain the revenue it would forego if it reduced its service rates and charges revenue by the amount proposed without increasing its general rate revenue*
- *that the higher cap is in the long-term interests of ratepayers and the community.*

Council's Long-Term Financial Plan demonstrates that Indigo Shire Council does not have excess funds, ongoing surpluses, or available efficiencies that would allow for the removal or reduction of the EMC income. Financial planning projections have been balanced with the inclusion of waste revenue (through service fees and the EMC) as well as expenditure to provide waste and recycling services to the community.

The ESC guidance states that:

We will consider a council's long-term funding need by examining the impact on key financial indicators if we do not approve the higher cap and the council continues to provide the proposed services while foregoing the revenue currently collected through the identified service rates and charges.

Without the EMC, or a general rates increase of equivalent value, the financial position of council would deteriorate by approximately \$800k per year on an ongoing basis. Even without inflation this equates to a \$8 million deficit over the 10-year planning horizon. As can be seen in the supplied financial data, Indigo Shire Council has no ability to absorb or save \$8 million over the next ten years and the result of this suggestions would be a deteriorating cash position. With current cash projections it is forecast that the removal of this charge without replacement would see council's available cash reduce to \$0 within a few years.

Details of council's financial position are included in the attached ESC spreadsheet.

Additional Consideration: Distributional Considerations

The ESC guidance for the 2025/26 year points out that:

“In applications where council is proposing no, or little, change in the total revenue it collects or the services delivered, the main impacts to the council, its community and ratepayers are likely to be distributional. This is because waste charges are levied on a per property basis, meaning all ratepayers pay the same amount, whereas general rates are calculated based on the value of the property, meaning ratepayers (within the same property class) with higher value properties will pay more. If a council is seeking a higher cap to transfer revenue from service rates to general rates there may be less distributional impacts because service rates are also calculated based on property value”.

It is also noted that:

We [ESC] do not assess affordability in councils’ higher cap applications. The legislation does not require us to do so.

Councils are best placed to determine their community’s capacity to pay rates after taking into account all major factors that may affect their communities. The decision on the appropriate trade-off between service impacts and the level of rates rightly sits within the council’s jurisdiction.

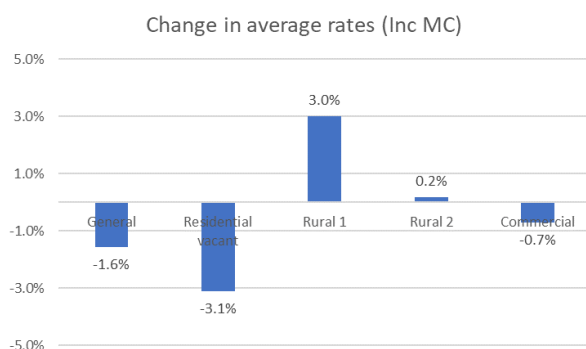
(Essential Services Commission 2019, Mansfield Shire Council: Decision on application for a higher cap 2019–20, 29 May)

This section assesses distributional implications of the change arising from the Minister’s guidelines. In doing this it is noted that the Minister’s position deliberately changes the raising of waste funding from a per-property basis to an ad-valorem basis. In doing this, the minister has set the expectation that there will be distributional changes and that the burden should fall more heavily on ratepayers with higher property wealth and less on ratepayers with lower property wealth. The goal, therefore, is not to neutralise this change (and go against the Minister’s decision), but rather to comply with the Minister’s guidelines without applying an unreasonable change for the ratepayer groups.

To assess distributional equity the following analysis used current financial year figures. At the time of making this application council has not set its 2025/26 budget or received valuation data for 2025/26. This limits the ability to provide accurate estimates of the 2025/26 year. However, for the purposes of the distributional equity calculations the impact will be very similar between years and therefore the use of the 2024/25 year for the analysis is considered to be appropriate.

The current (2024/25) Environmental Management Levy is \$88.15 per property. This raised revenue of \$778,276 in 2024/25. If this was to be moved to general rates, then the distribution of this income burden will shift from a basis of “per property” to “ad-valorem” (based on property value). If this was to be done by CIV distribution alone (increasing the rate in the dollar by \$0.000108806), the impact of this change is shown below.

Differential	Variation	% of ave rates
General	-\$ 23.99	-1.6%
Residential vacant	-\$ 51.68	-3.1%
Rural 1	\$ 79.09	3.0%
Rural 2	\$ 3.17	0.2%
Commercial	-\$ 17.51	-0.7%



This shows a higher burden on Rural 1 properties (\$79.09 increase) and a benefit for Residential Vacant and General properties (\$51.68 decrease and \$23.99 decrease respectively). Whilst none of these are particularly large amounts in comparison to the average rates (the change varies between -3.1% to +3.0% of average rates) it is considered that a more uniform distribution of the burden would be desirable, and further modelling was undertaken to find a more even spread of the proposed change. This was done by looking at the Municipal Charge.

Council's Revenue and rating Strategy (2024) states that "*Council will set a Municipal Charge at or near the 20% maximum*". Currently (2024/25) the Municipal Charge is at 18.60% of total rates and charges, as shown below.

2024/25			
General rates	\$	13,336,789	81.40%
Municipal charges	\$	3,047,803	18.60%
Total	\$	16,384,592	100.00%

The headroom available between the 18.60% and the maximum of 20% (as set by s.159(2) of the *Local Government Act* (1989)) can be calculated as follows.

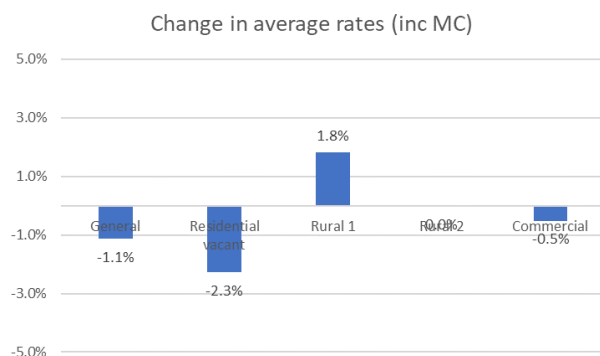
Maximum MC	Rates (2024/25)	Difference
80.00%	\$ 13,107,673	-\$ 229,115
20.00%	\$ 3,276,918	\$ 229,115
100.00%	\$ 16,384,592	

Therefore, \$229,115 of the \$778,276 could be distributed through an increase in the MC from the current 18.6% to 20.0%. This leaves \$549,161 remaining to be distributed on an ad-valorem basis. When this is modelled the distribution changes. In two ways:

1. \$229,115 of the \$778,276 becomes property (MC)-based and therefore more closely replicates the current distribution method. This reduces the amount of ad-valorem distribution that is required and therefore reduces the inequity that was seen in the 100% ad-valorem model shown above.
2. The burden re-distributes away from Rural 1 due to the relatively lower number of Municipal Charges that are seen in this differential category (due to the Single Farming Enterprise rule in accordance with s.159(3) of the *Local Government Act* (1989)).

When this change was made the distribution became more even across the differential categories:

Differential	Variation	% of ave rates
General	-\$ 17.34	-1.1%
Residential vacant	-\$ 37.97	-2.3%
Rural 1	\$ 48.03	1.8%
Rural 2	-\$ 0.71	0.0%
Commercial	-\$ 12.72	-0.5%



Indigo Shire Council considers that this adjusted distribution is more appropriate because:

- Rural 1 properties have an average increase of only \$48.03 per year (1.8% of average rates). This is considered to be an acceptable outcome.
- Residential Vacant properties are the most advantaged by this change (an average reduction of \$37.97, equating to 2.3% of average rates). These properties have no dwellings or residents and therefore have very minimal need for council's waste services. It therefore could be argued that it is appropriate for these properties to benefit from any re-distribution of this levy.
- The remaining differentials have a small favourable (or zero) variation.

The option of spreading the implementation over multiple years was considered as part of the process. This was ruled out because:

- The distributional changes shown above are considered to be acceptable.
- The phasing of this change over multiple years added complexity/confusion that was not considered to be balanced by a material benefit.

Finally, It is recognised that there are mechanisms available (through the adjustment of the differential rates percentages) that could further smooth the transition and reduce the variation shown in the distribution. This, however, was not required to achieve a reasonable distribution, and would depart from the Minister's intent of changing this revenue source from a property tax to a wealth tax.

Other Considerations

To give some context to the proposed change in rates, the Treasurer of Victoria announced on 13 December 2024 that the Fire Service Property Levy will be renamed and increased from 1 July 2025. This increase provides a relevant benchmark as it will apply at the same time (as this proposed rate cap variation) and be collected on the same rates bill as the change to the Environment Management Contribution. In the case of the Fire Services Property Levy (now renamed the Emergency Services and Volunteers Fund) this cost for primary producers will increase from a median of \$621 to a new median of \$1,299 (an increase of \$678 or 109%). In this context, an increase of the annual rates for farmers of only \$48.03 (1.8% of the rates bill) appears to be a relatively straightforward matter.

As a final perspective it is important to consider the principles of good rating practice.

By making the statement that general waste services (that do not provide a direct benefit to a property) should not be funded by a property charge, the Minister was providing guidance that these services should instead be funded through the normal rates mechanism (whether through a rate cap variation, or through council's existing rate revenue).

Councils in Victoria use state government guidance for the setting of rates. The following comes from "*The Local Government Better Practice Guide: Revenue and Rating Plans*" (2022).

Council Rates: The Tax Base for Local Government

Council rates are a legally recognised form of property tax on the 'stored wealth' or unrealised capital gains, inherent in land and buildings. Rates are a form of tax and no less legitimate than taxes levied by the Commonwealth or State Governments.

Rates are determined by the value of a ratepayer's property. They have no direct correlation to an individual ratepayer's income, consumption of services, or any perceived benefits derived from these services.

As a type of wealth tax, it is also important to recognise that rates are not equivalent to income taxes, corporate taxes, or consumption taxes. A popular complaint heard is that "...the rates I pay have no correlation with the services I use" or "...rates don't reflect my income and capacity to pay". While Councils may be tempted to consider rates in these ways, it is often leads to perverse outcomes and inequitable results in their communities.

This is important context for assessing the distributional equity of the change envisioned by the Minister. By saying that the general waste costs should be funded by general rates, the Minister was expressing her preference for these waste costs to be distributed according to the wealth principle, rather than a property basis.

It is therefore appropriate – according to these two state government guidance documents – that Rural 1 properties pay a higher proportion of the general waste costs because they own more "*unrealised capital gains, inherent in land and buildings*", and that this is acceptable, even if these properties "*... have no direct correlation to an individual ratepayer's income, consumption of services, or any perceived benefits derived from these services*".

Making this link gives council comfort that – despite the changes ranging from an increase of \$48.03 to a decrease of \$37.97, this application complies with the intent of the Minister's direction to change the raising of this funding from a per-property basis to a wealth tax.

Position on distributional equity

Indigo Shire Council believes that the projected distribution (shown above) reflects the expected outcomes envisioned by the Minister, are appropriate, are relatively minor in comparison to the state government's taxation increases.

Indigo Shire Council proposes to implement the higher cap by:

- First, increasing the Municipal Charge to the maximum 20% of rates and charges, and then;
- Using higher rates in the dollar to achieve the higher cap.

Financial Information

Council's rate cap application pack includes this document, the ESC cover sheet, and the ESC financial spreadsheet. The following notes are provided in relation to the information provided in the financial spreadsheet.

Council is confident that the financial data supplied is sufficient for the analysis required for this type of revenue-neutral application, however council welcomes any requests from the ESC for further information and will happily provide additional detail that is relevant to the consideration of this proposal.

Difference in rate income

At the time of making this application the 2025/26 financial year budget is being built and exact financial information is not yet available. The figures in this application represent an estimate of the 2025/26 budget figures. Unless other information is available, the 2025/26 estimates are generally a rate cap (3%) increase on the 2024/15 financial year.

LTFP detail

Council uses a LTFP template base on the Institute of Public Works Engineering Australasia (IPWEA) template, and forecasts at a level of granularity appropriate for a small rural shire. Therefore, not all account lines are forecast in detail for the full ten-year period. This is not considered to be an impediment to this application due to the fact that the application proposed a revenue-neutral transfer from one revenue source (waste levy) to general rates. No changes are proposed in any other area of the financial plan.

A/B Scenario planning

The ESC spreadsheet provides information that allows the ESC to 1/ assess council's financial position, 2/ confirm that the proposed increase is revenue-neutral, and 3/ model two application scenarios (Scenario A: Rate cap increase approved / Scenario B: Rate cap increase refused). Council thanks the ESC for providing this template and recognises that the use of these standard tools provides consistency and efficiency for the normal type of higher cap applications envisioned under the act.

However, in this case, the A/B scenario format doesn't accurately describe the type of change being requested because Indigo Shire Council's application has a fall-back position of retaining the waste levy. For clarity, the two possible scenarios are:

- If this application is successful then council will remove the EMC and increase general rates and municipal charge by the same amount, with no other changes to any of the other account lines shown in the ESC spreadsheet.
- If the application is unsuccessful then council will continue to use the EMC, with no other changes to any of the other 77 account lines shown in the ESC spreadsheet.

In effect, the A/B scenario only impacts 3 of the 80 account lines in the spreadsheet ("General rates", "Municipal charges", and "Service rates and charges"), and the other account lines will not change under either scenario (approval/refusal).

Timeframe of adopted LTFP

The long-term financial plan information supplied is taken from the last adopted financial documents that are now almost 1 year old. Council will shortly be publishing a new budget that will have updated figures. It is expected that the new updates will be materially similar to the June 2024 adopted figures. Notably, the June 2024 adoption of the

LTFP means that the plan finishes with the 2033/34 financial year. The ESC spreadsheet requests one additional year and therefore some estimates have been added for the 20234/35 year that are not included in Council's currently adopted LTFP.

Availability of property data

Some of the financial and property data (for example the number of assessments for 2025/26 and beyond) are not known at this stage and are not part of the adopted LTFP forecast. Therefore, the ESC spreadsheet uses estimates for these figures.

The long-term financial plan (adopted in June 2024) used rate cap assumptions for 2025/26 and beyond. In December 2024 the 25/26 rate cap was announced, and this was higher than the assumption that was used in the LTFP. Therefore:

- 2025/26 rates and charges in the ESC spreadsheet is \$20,756k. This is higher than the LTFP estimate of \$20,651k due to the updated rate cap information. It was considered that this more accurate figure was more appropriate than the June 2024 LTFP figure.
- This then creates a new base income for future years. Therefore, the rates and charges income for years 2 to 10 is higher than the original LTFP. This was seen as an appropriate and conservative adjustment to make, and it represents the latest available information. Additionally, it was felt that using the lower LTFP figure would be downplaying the real income level.

Use of a target savings account

The ESC spreadsheet shows that council has a multi-year deficit operating position. This deficit is due to the financial challenges identified throughout this document (small shire, low rates base, high service demands, etc).

Despite this deficit projection it is important to recognise that council will not build annual budgets that cause a deterioration of the financial position, and each year Indigo Shire Council works hard to achieve a balanced cash budget. Therefore, from a budgeting perspective, this operating deficit result is better viewed as a targeted savings that must be achieved each year to balance the budget.

To further complicate matters, council does not simply aim for a break-even operating result because this simplistic view would not provide adequate funding for the capital works budget (and specifically the renewal of council's assets) or guarantee an adequate cash result. Instead, an operating surplus is required to fund infrastructure demands and maintain cash. This creates some challenges for council's financial planning to 1/ calculate the level of operating surplus that is required to adequately fund the capital works program, and 2/ show this in a simple way.

Indigo Shire Council achieves this by including a savings target line in the LTFP called "Operating Adjustments". This assists Indigo Shire Council with identifying and highlighting the balancing that is required each year to run the operations, fund the capital works, and maintain cash reserves. The ESC spreadsheet does not replicate this planning philosophy and instead shows this gap as an operating deficit.

It is suggested that the different forecasting approaches taken by the ESC and Indigo Shire Council are appropriate for each organisation's needs, and that this difference is merely a detail to be understood and accounted for when comparing the financial forecasting needs.

Detailed waste financial notes

- Council tracks kerbside income and expenditure closely to ensure that the fees charged reflect the cost of the service.

- Other waste activities (funded by the EMC or general rates) are not all individually tracked at activity level. Some services (transfer stations, hard waste collections, etc) have traditionally been accounted for separately, and therefore they are included in the ESC spreadsheet. The remaining waste activities are included as “other”.
- It is notable that the account structure used to allocate waste expenses changed in 2021/22. This can be seen in some of the movements from the previous year. Whilst this change is not ideal for the attached financial analysis, it does not change the bottom-line expenses and the overall position shows that council is not making a surplus from the EMC, and that the transfer of the EMC to general rates is required for the ongoing sustainability of the service.
- Landfill costs include a provision for the rehabilitation of council’s landfill sites. This expense is ‘lumpy’ and dependant on EPA rehabilitation standards and contractor rates. In 2021/22 council experienced a significant increase in the provision (\$2,138,152) due to post-covid contractor rate increases. The following year saw a \$2,062,750 reduction (return to normal rates). It is council’s suggestion that this increase/decrease is an abnormal spike caused by the unfortunate timing of a landfill rehabilitation reassessment during an abnormal contractor environment. As can be seen in the financial details, council now provides for this expense annually to mitigate against future spikes.
- Some of the waste expenses are estimates. For example, the event waste support and street sweeping costs are borne by staff in other service areas (tourism and operations) who allocate part of their usual role to these activities. The exact number of hours (and therefore) cost are not tracked, and the figures included in the ESC spreadsheet are estimates based on a periodic analysis of the hours allocated to these tasks.
- No depreciation has been included in the expenses (for transfer stations, etc). This is a real expense, but may partly duplicate the figures included as capital expenditure. For this reason, depreciation was excluded from the operating expense listing. In the context of this application this is a trivial omission because waste expenses in excess of the level of EMC income have been – and will continue to be – funded from general rates. Therefore, the inclusion (or not) of depreciation adds nothing to the analysis, but risks duplicating capital expenditure.

Balancing of the EMC and expenses

Council’s aim is to match the majority (if not all) of the operating (not capital) expense with the EMC revenue. This aligns to the reason that this levy was created – to transparently show the amount of revenue that is used in waste activities. However, it is not practical or reasonable to exactly match every year’s income and expense. Instead, a long-term view is taken on this calculation, and council aims to balance the years of surplus with the years of deficit to arrive at a long-term result that (roughly) matches, or at least is not a surplus.

The relevant time frame is often the ten-year financial plan, however in the EMC analysis a six-year span is requested.

The result of this analysis is that two of the six years shown in the attached spreadsheet are years of surplus (i.e. the waste service has a funding excess). The other four years result in a deficit. Overall, the net result from the six years is a deficit of \$88,297. This deficit was funded by general rates.

An alternate timeframe can be taken from the Victorian Ombudsman’s 2018 report into Wodonga’s waste levy where it was recommended that Wodonga take a three-year approach to the adjustment of the waste levy (back to a break-even or deficit position). This may be considered as a benchmark for an appropriate ‘balancing’ timeframe. Using this method, the attached analysis shows that Indigo Shire’s three-year position is a deficit of \$486,616. This deficit has been funded by general rates. In normal circumstances council may have considered increasing the EMC to arrive at a more balance position within the next three years, however this application recommends that the current level be transferred to general rates and – in doing so – locking this level of funding/deficit in for future years.

Conclusion

This application investigates the proposed higher cap in several ways to ensure that the proposed rate cap increase in 2025/26 is the correct quantum, is being made for the correct reasons, has considered the community, provides good value for money, is the most appropriate action (rather than cutting services), and is appropriate for the long-term future of the municipality. Most importantly the analysis also models the distributional impacts of this change and quantifies the expected increase/decrease for the different property types.

The conclusion of this analysis is that the proposed revenue-neutral change to move \$801,624 from a waste levy to general rates, requiring a 7.54% rate increase in 2025/26, is appropriate for Indigo Shire Council to comply with the Minister's guidelines for service rates and charges. This would be implemented by first increasing the Municipal Charge to the maximum of 20%, before adjusting the rate in the dollar.