ESSENTIAL SERVICES COMMISSION
Local Government

Higher cap – Application cover sheet (2017-18)

Council name

Hindmarsh Shire Council

Contact person and phone number

Anne Champness	03 5391 4444

Base Average Rate ($): *(e.g. $1,800)*

$1,391.42

Proposed increase for 2017-18: *(e.g. 5%, $4,000,000)*

Proposed increase in Average Rate (%)	2%
Proposed increase in prescribed rate revenue ($)	$144,017

Proposed increase for following year(s): *(e.g. 5%, 2%, $4,000,000)*

2018-19	Proposed increase in Average Rate (%)	n/a
	Proposed increase in prescribed rate revenue ($)	
	Note: Assumed rate of forecast CPI (%)	
2019-20	Proposed increase in Average Rate (%)	n/a
	Proposed increase in prescribed rate revenue ($)	
	Note: Assumed rate of forecast CPI (%)	
2020-21	Proposed increase in Average Rate (%)	n/a
	Proposed increase in prescribed rate revenue ($)	
	Note: Assumed rate of forecast CPI (%)	

Please attach:

- evidence of council sign-off/approval of application
- 2015–16 Annual Report + 2016–17 Budget + Draft 2017–18 Budget
- Council Plan / Strategic Resource Plan
- any other information supporting the application

Summary of the key reason(s) for the application: (*Please limit response to two pages)*

The purpose of the higher cap is to enable Council to continue to deliver day-to-day community services like community care, youth engagement and libraries, and maintain and renew our infrastructure at the levels required by our residents and ratepayers.

We provide 100 different services in a municipality covering an area of 7,500km2 and manage a substantial amount of infrastructure, including 3,177km of roads, six bridges and 27km of pipes/drains. To undertake this work in 2017/18 we will raise revenue of $17.3m (without a variation to the cap), 47% of which will come from rates and charges and 35% from state and federal government funding.

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A comprehensive assessment of our council's financial sustainability shows our challenge is twofold:

1. Financial performance – our capacity to improve the outcome of our financial activities – that is ,reduce our cost and increase or revenue – is compromised by:
    - The capping of increases to our largest revenue stream, rates and charges, to 2% combined with the existing low rate base.
    - The reduction of our second largest revenue stream, state and federal government funding, over time. Examples are the discontinuation of the $1m state government Country Roads and Bridges Program and the federal government's freeze of the Financial Assistance Grants' indexation which has taken more than half a million dollars out of our budget over the last three years.
    - Our small, socio-economically disadvantaged population, severely restricting our ability to develop alternative revenue streams.
2. Sustainable (financial) capacity - inherent structural characteristics and environmental factors are impacting our ability to raise revenue and contain costs:
    - The large geographic area (7,500km2) we cover and small, dispersed population (the shire's estimated residential population at 30 June 2011 was 5,798), compromising our ability to create economies of scale.
    - The significant amount of required infrastructure (including 3,177km of roads, six bridges and 27km of pipes/drains).

In addressing this substantial challenge, we are taking a three-pronged approach:

1. We are continually creating efficiencies and savings within our business;
2. We are continuing to seek additional funding from the state and federal governments; and
3. We are pursuing this variation of the average rate cap.

On their own, none of these measures would be sufficient to secure our long-term sustainability.

Council's medium to long term planning has been based on maintenance of service levels and a continued effort to keep up with the need for renewal of our ageing infrastructure. We have a well-developed, robust Long Term Financial Plan informed by our strong history of community engagement.

While the financial statements paint a realistic picture of our service and infrastructure needs, they also reflect that the current financial environment will not allow us to meet these needs into the medium to distant future without additional revenue and funding sources. If such additional income does not become available, the services and infrastructure our residents rely on will have to be reduced to maintain a financially sustainable future.

These services are already well below the services available to our metropolitan or even regional counterparts and a further reduction would have a devastating impact on the sustainability of our community. The requested higher rate cap is one tool in our efforts to ensure our community's sustainability.

Hindmarsh
Shire Council

Application for a rate cap variation

May 2017

Contact: Anne Champness
Director Corporate & Community Services
achampness@hindmarsh.vic.gov.au
03 5391 4444

Table of Contents

1. Executive Summary:

Hindmarsh Shire Council is proposing a higher rate cap of 4% for the 2017/18 financial year. This 2% increase above the average rate cap set by the Minister for Local Government will provide additional income of approximately $144,000 in Council's 2017/18 Annual Budget.

The purpose of the higher cap is to enable Council to continue to deliver day-to-day community services like community care, youth engagement and libraries, and maintain and renew our infrastructure at the levels required by our residents and ratepayers.

We provide 100 different services in a municipality covering an area of 7,500km^2 and manage a substantial amount of infrastructure, including 3,177km of roads, six bridges and 27km of pipes/drains. To undertake this work, in 2017/18 we will raise revenue of $17.3m (without a variation to the cap), 47% of which will come from rates and charges and 35% from state and federal government funding.

If a comprehensive assessment of a council's financial sustainability involves analysis from three interrelated perspectives - financial performance, corporate performance and sustainable (financial) capacity - then our challenge is twofold:

1. **Financial performance** – our capacity to improve the outcome of our financial activities – that is reduce our cost and increase or revenue – is compromised by:
    - The capping of increases to our largest revenue stream, rates and charges, to 2% combined with the existing low rate base.
    - The reduction of our second largest revenue stream, state and federal government funding, over time. Examples are the discontinuation of the $1m state government Country Roads and Bridges Program and the federal government's freeze of the Financial Assistance Grants' indexation which has taken more than half a million dollars out of our budget over the last three years.
    - Our small, socio-economically disadvantaged population, severely restricting our ability to develop alternative revenue streams.
2. **Sustainable (financial) capacity** - inherent structural characteristics and environmental factors are impacting our ability to raise revenue and contain costs:
    - The large geographic area (7,500km^2) we cover and small, dispersed population (the shire's estimated residential population at 30 June 2011 was 5,798), compromising our ability to create economies of scale.
    - The significant amount of required infrastructure (including 3,177km of roads, six bridges and 27km of pipes/drains).

In addressing this substantial challenge, we are taking a three-pronged approach:
We are continually creating efficiencies and savings within our business, we are continuing to seek additional funding from the state and federal governments and we are pursuing this variation of the average rate cap. On their own, none of these measures would be sufficient to secure our long-term sustainability.

Council has a well-developed, robust Long Term Financial Plan (LTFP) which was assessed for the validity of its underlying assumptions and sound forward planning by Council's internal auditor Phil Delahunty from RSD Chartered Accountants in 2014. At the time, the LTFP projected rates increases of 6% in 2015/16 and 2016/17, 5% in 2017/18, 2018/19 and 2019/20 and reducing to 4% from 2020/21, showing Council's intent to minimise rate increases in the long term. The LTFP recognised that, in the absence of other revenue streams or alternative funding sources, Council required this level of rate income to remain sustainable and continue to provide services and infrastructure maintenance to current standards.

Upon the introduction of the Fair Go Rates System, Council adjusted its LTFP to reflect rate increases of only 2.5% (based on the cap set in December 2015). In recognition of its funding needs, Council noted in an introductory comment to the financial statements contained in its 2016/17 Annual Budget:

"The following Financial Statements project expenditure based on Council's long term service, asset and financial planning. The deficits projected for the years 2017/18 onwards are a reflection of the introduction of rates capping combined with a reduction in state and federal government funding.

Council's medium to long term planning has been based on maintenance of service levels and a continued effort to keep up with the need for renewal of our ageing infrastructure. While the financial statements paint a realistic picture of our service and infrastructure needs, they also reflect that the current financial environment will not allow us to meet these needs into the medium to distant future without additional revenue and funding sources.

If such additional income does not become available, service levels will have to be reviewed to maintain a financially sustainable future."

We are currently finalising our budget for the 2017/18 financial year. With no significant changes to Council's business model and the financial outcomes modelled in Council's Long Term Financial Plan, updated once more to reflect the current average rate cap, Council must apply for a higher rate cap above the average cap set by the Minister to meet its renewal targets and deliver on consultation and strategic planning undertaken in the last couple of years. Council's baseline financial statements and Long Term Financial Plan statements enclosed with this application illustrate Council's funding needs.

In considering our application, Council has built on its strong history of community engagement with eight Community Conversations held across the Shire. Meetings at Antwerp, Rainbow, Broughton, Woorak, Winiam, Jeparit, Nhill and Dimboola were attended by 97 residents. Feedback forms allowed attendees to comment on a proposed 2% variation of the rate cap. Of the 27 surveys returned, 18 or 66.7% voted in favour of a variation to the rate cap, one or 3.7% voted against, and eight or 29.6% did not express a preference either way.

At its meeting on 3 May 2017, Hindmarsh Shire Council formally resolved to submit an application for a higher rate cap. In doing so, Council acknowledges that it has one of the smallest annual budgets in the state and has always managed its finances frugally.

We are not seeking a "free pass" to be wasteful or spend funds irresponsibly but recognition that the services and infrastructure our residents rely on cannot otherwise be maintained in the medium to long term. These services are already well below the services available to our metropolitan or even regional counterparts and a further reduction would have a devastating impact on the sustainability of our community.

2. Higher cap proposed for the 2017/2018 financial year

Hindmarsh Shire Council is proposing a higher cap of 4% for the 2017/18 financial year, 2% above the average rate cap set by the Minister for Local Government in December 2016.

A 2% increase of Council's general rates income and municipal charge will provide additional income of approximately $144,000.

To put this in perspective, that is the equivalent of an extra

- 1km rural sealed pavement reconstruction;
- 80km shaping of a dry weather road; or
- 165km grading.

On the other hand, for our community, a 2% increase above the rate cap would mean an additional cost:

- A $150,000 residential property would pay an additional $26/annum at the average 2% rate cap, or $43/annum if the cap was increased to 4%.
- A $750,000 rural property would pay an additional $78/annum at the average 2% rate cap, or $154/annum at 4%.

3. Reasons for which the Council seeks the higher cap

As indicated earlier, Council is facing a significant sustainability challenge in the medium to longer term. A comprehensive assessment of a council's financial sustainability involves analysis from three interrelated perspectives:

1. **Financial performance** - the outcome of a council's financial activities: past and projected; measured in financial terms, using indicators devised for the purpose.
2. **Corporate performance** - the quality of a council's financial decision making in planning and providing community facilities and services, and in managing resources.
3. **Sustainable (financial) capacity** - the impact of inherent structural characteristics (e.g. community income, population etc.) on a council's ability to raise revenue and contain costs.

The key sustainability pressures experienced not only by Hindmarsh Shire Council but its fellow rural councils relate to financial performance and sustainable capacity.

We are seeking to address this challenge in a three-pronged approach:

1. We will continue to create efficiencies and savings within our business;
2. We will continue to seek additional funding from the state and federal governments; and
3. We are pursuing a variation of the average rate cap.

The purpose of the higher cap is to enable Council to continue to provide day-to-day services and infrastructure maintenance and renewal at the modest level required by our residents and ratepayers. The higher cap is in accordance with Council's Long Term Financial Plan. At the level proposed it will, in combination with other measures, ensure Hindmarsh Shire Council's financial sustainability for the medium to longer term.

The following provides more detail on our sustainability challenge.

3.1 Financial performance

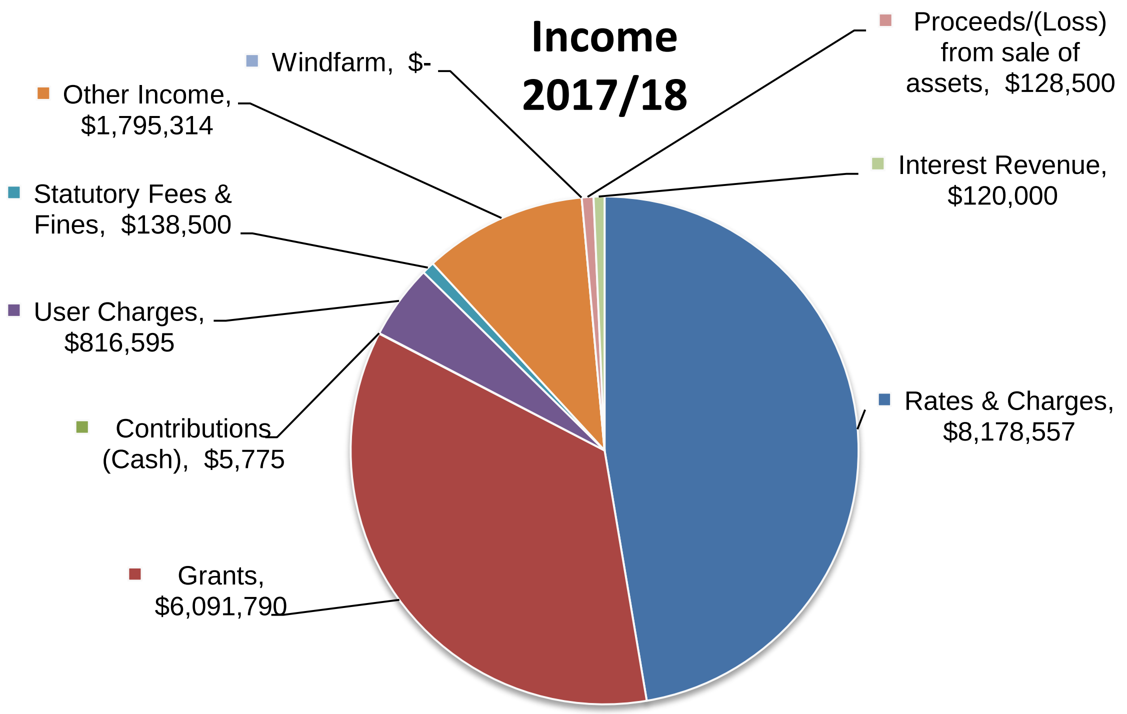
Despite the significant steps Council has taken to be sustainable into the future, including community directed strategic planning, process efficiencies and maximising external funding for community and economic development initiatives, decisions made outside of our control have negatively impacted our long-term financial outlook.

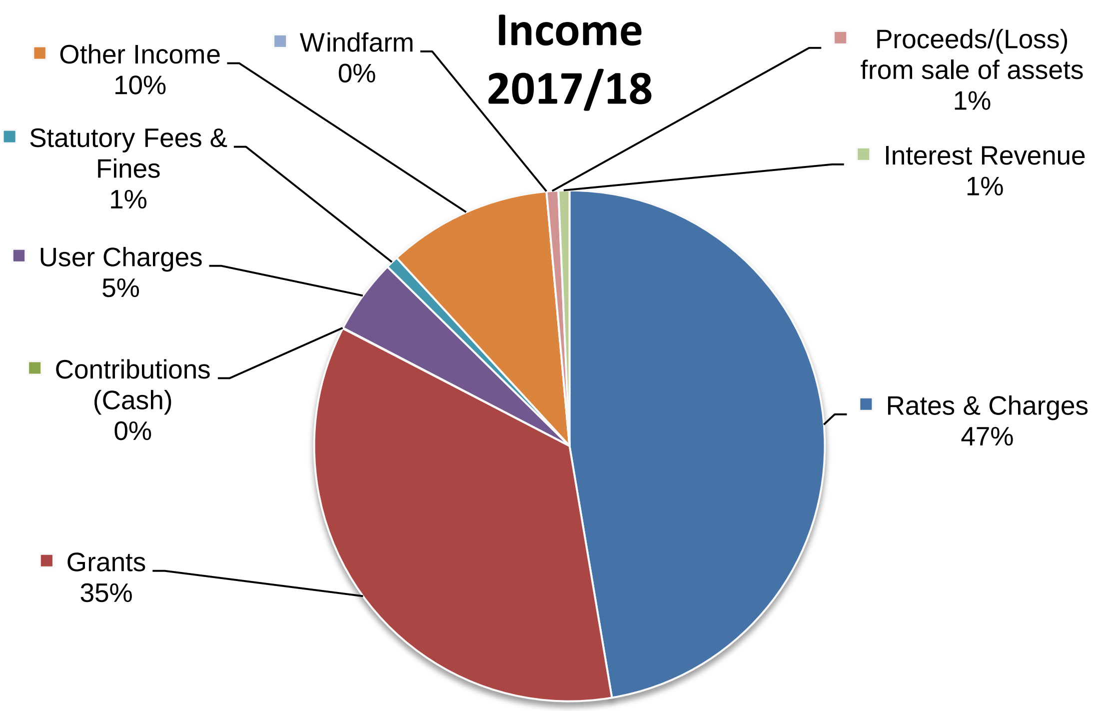
Our capacity to improve the outcome of our financial activities – that is, reduce our cost and increase or revenue – is compromised by:

- The capping of increases to our largest revenue stream, rates and charges, to 2% combined with the existing low rate base.
- The reduction of our second largest revenue stream, state and federal government funding, over time. Examples are the discontinuation of the $1m state government Country Roads and Bridges Program and the federal government's freeze of the Financial Assistance Grants' indexation which has taken more than half a million dollars out of our budget over the last three years.
- Our small, socio-economically disadvantaged population, severely restricting our ability to develop alternative revenue streams.

Our income
Unlike larger councils who can generate income through parking or other user-pay fees, development contributions and levies, rural councils are heavily reliant on rates and charges income as well as funding from the state and federal governments, to deliver core services (82% of our income comes from rates and charges and grants).

The following graph shows the relative amount of income we expect to receive from each source in 2017/18 (at the average rate cap):





Our largest revenue streams are rates and charges (47%), followed closely by state and federal grants (35%). Both of these have been impacted heavily by decisions outside our control.

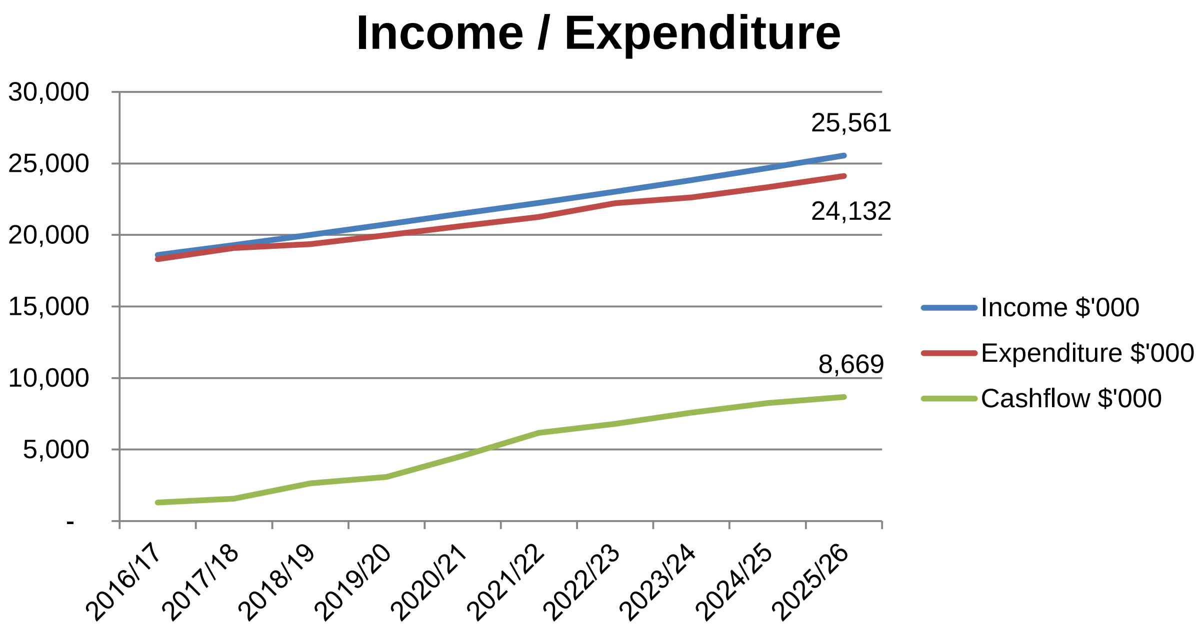
While one has been capped at 2% increases, the other has seen a reduction in funding – the loss of the state government's $1m Country Roads and Bridges Program funding for example, or the freeze of the indexation of the federal government's Financial Assistance Grants which has taken more than $500,000 out of our budget over the last three years. Even with indexation recommencing, as recently announced by the federal government, because it does not apply retrospectively the freeze will have an ongoing impact on our long-term financial position.

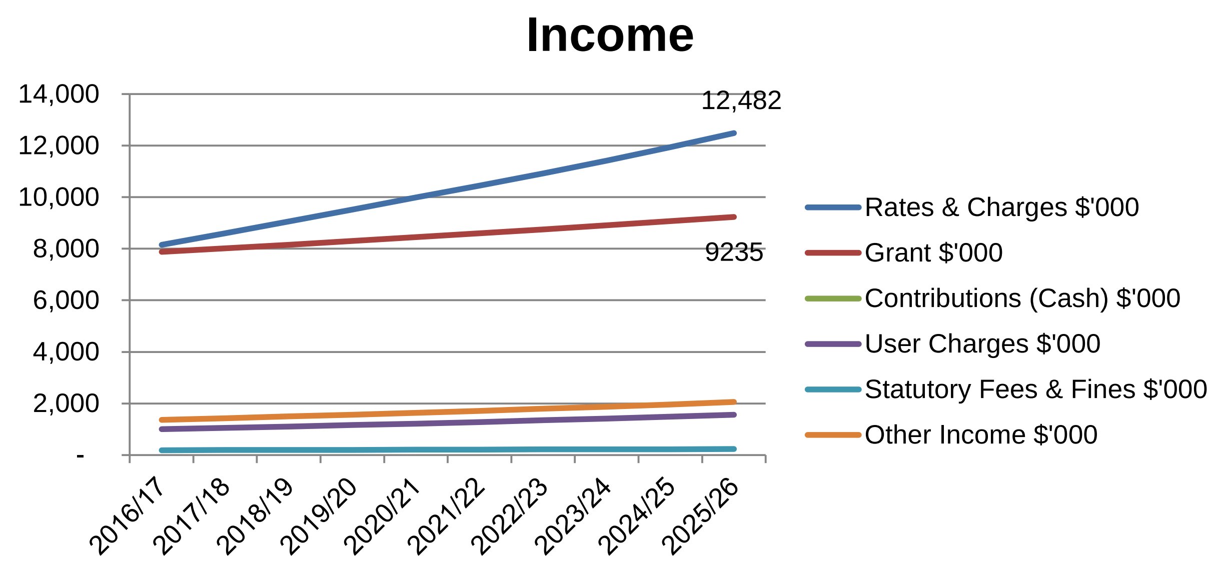
Cost shifting from the other levels of government has further exacerbated the issue. Examples for responsibilities – and costs – being shifted to local government over time include the collection of the Fire Services Levy (only supported financially until next year), home and community care, roadside weeds and pest management, school crossing supervisors or SES funding. When cost shifting occurs, funding is often provided for a transitional period and then withdrawn or not maintained at the initial level. In response to local government's advocacy efforts, the recent state budget addresses some of these effects with the reinstatement of 50:50 local and state government funding for school crossing supervisors (detail yet to be provided) and the state government's acceptance of its responsibility for the SES which will eliminate the need for our previous annual contribution of $12,000 to our local units.

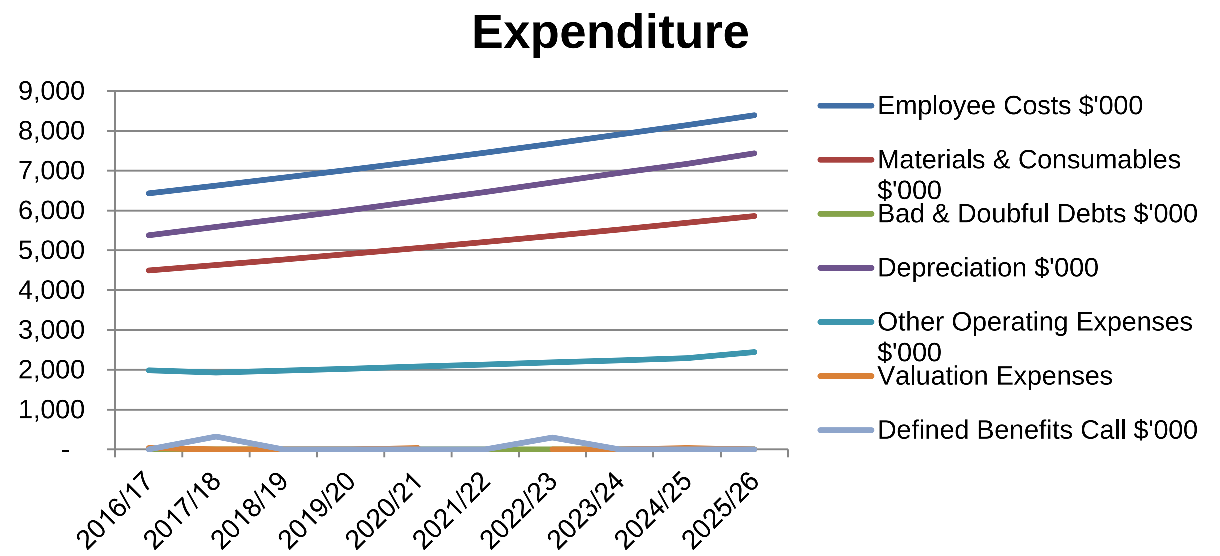
While temporary increases in federal Roads to Recovery funding have seen us protected somewhat from the worst impact of the above decisions in the 2016/17 and 2017/18 financial years, they have a devastating impact on our underlying result and cash position in the medium to long term.

The following graph demonstrates the impact of state and federal government decisions outside our control as shown in our Long Term Financial Plan (LTFP):

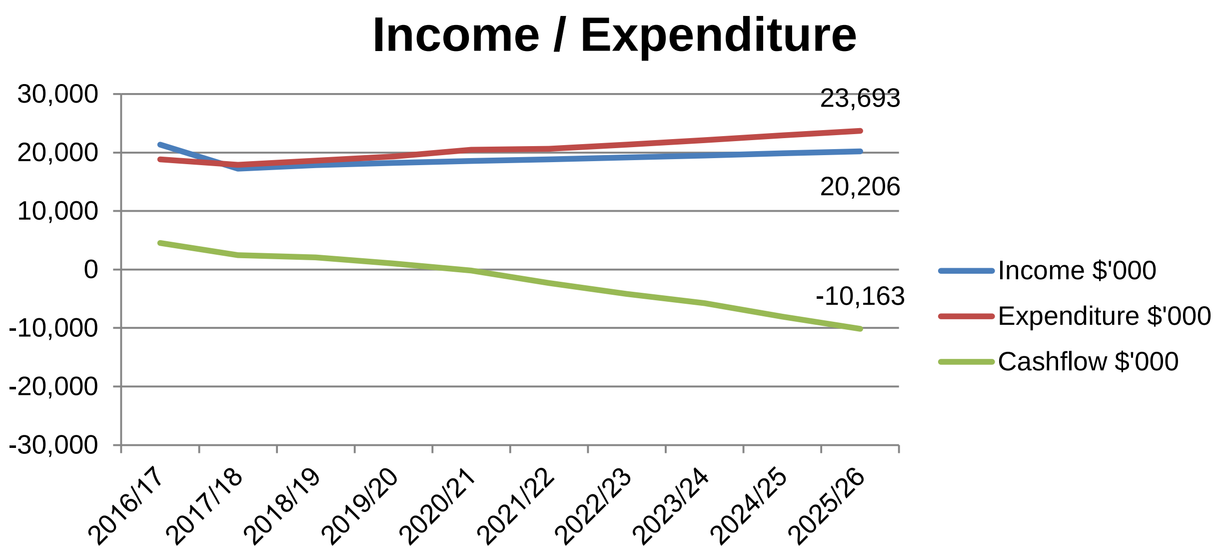
LTFP prior to rate cap and reduction in state and federal funding:

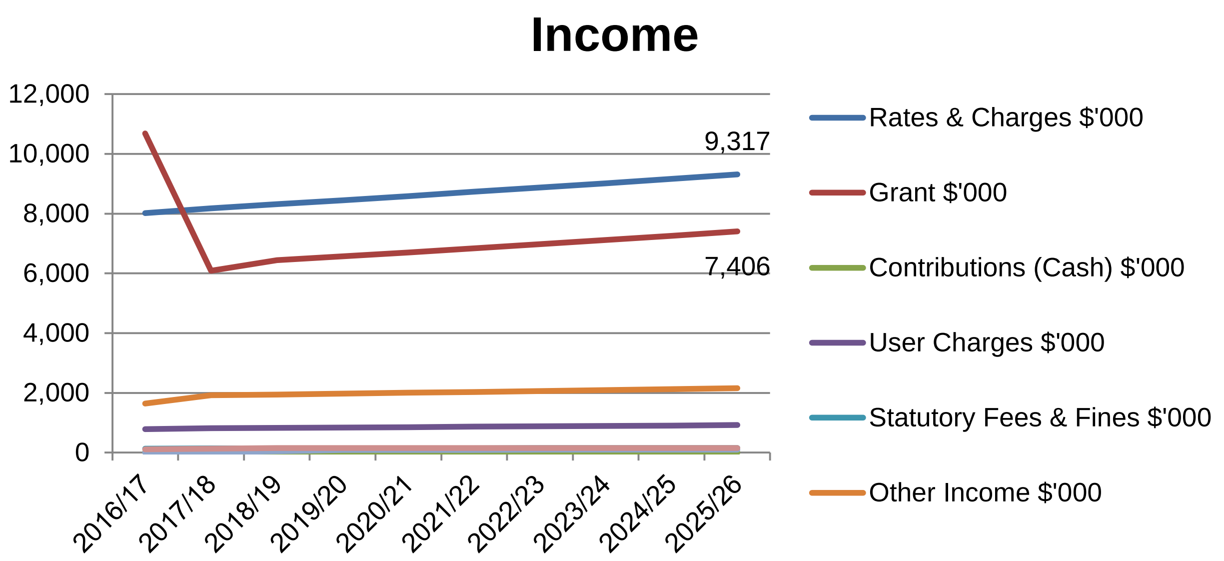


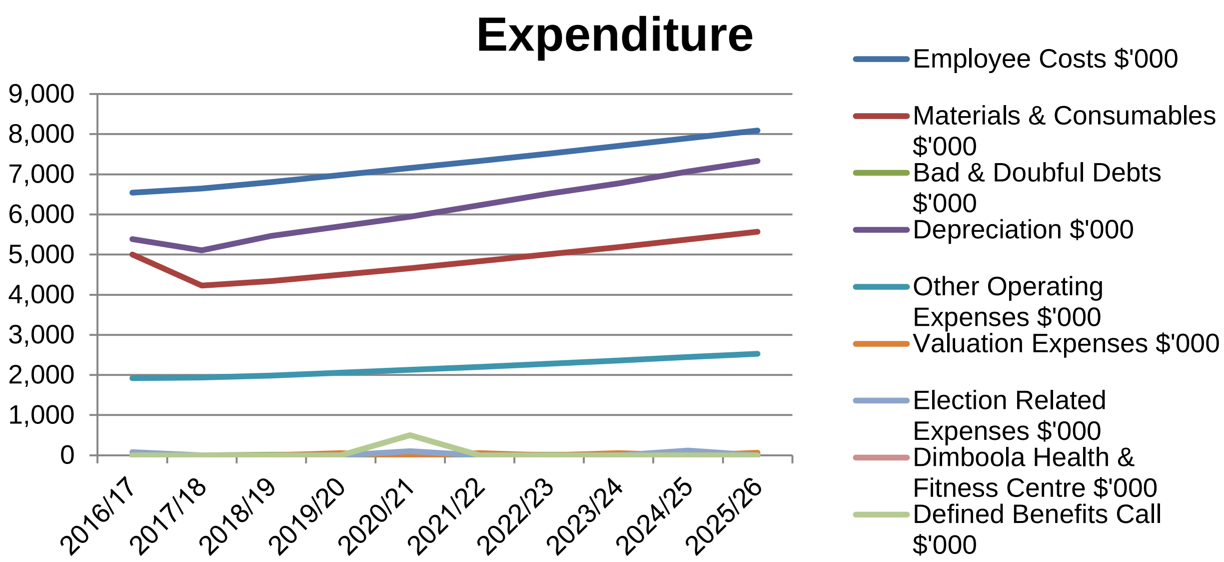




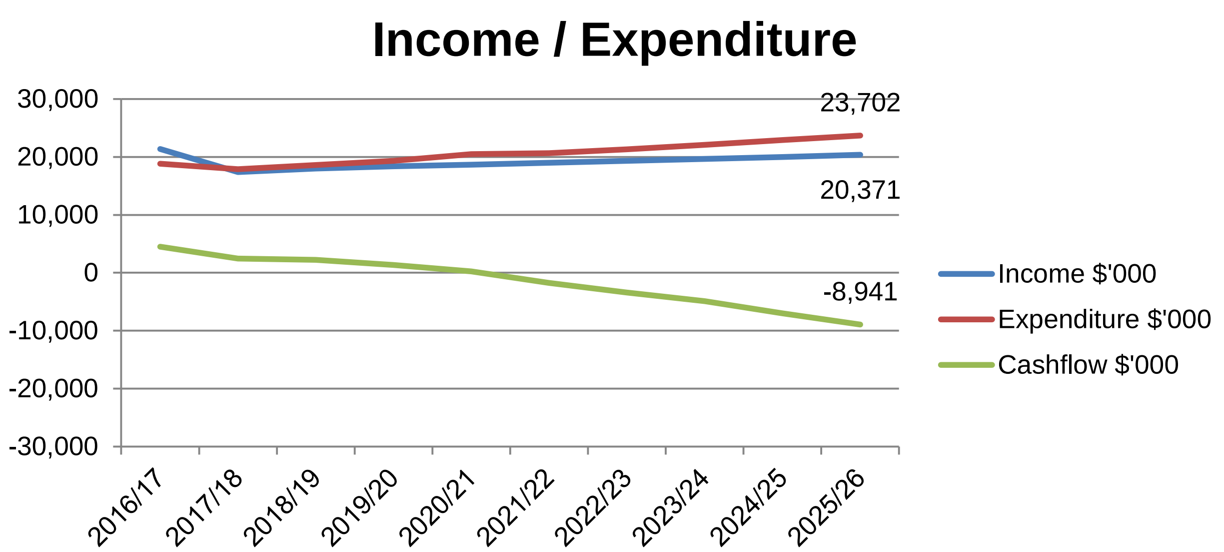
LTFP post rate cap and reduction in state and federal funding, **2% average cap**:

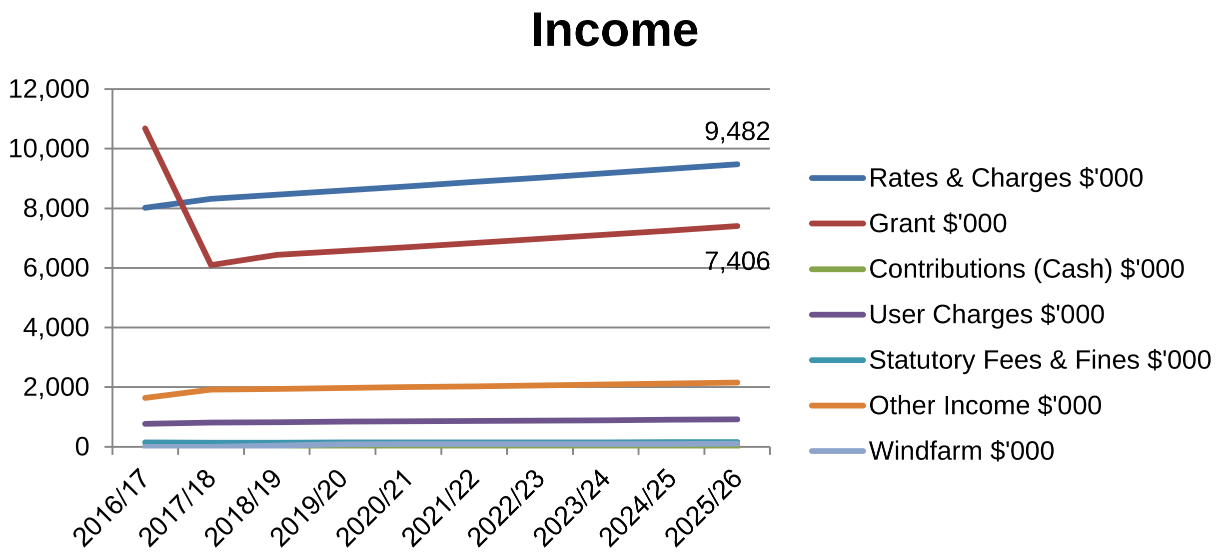


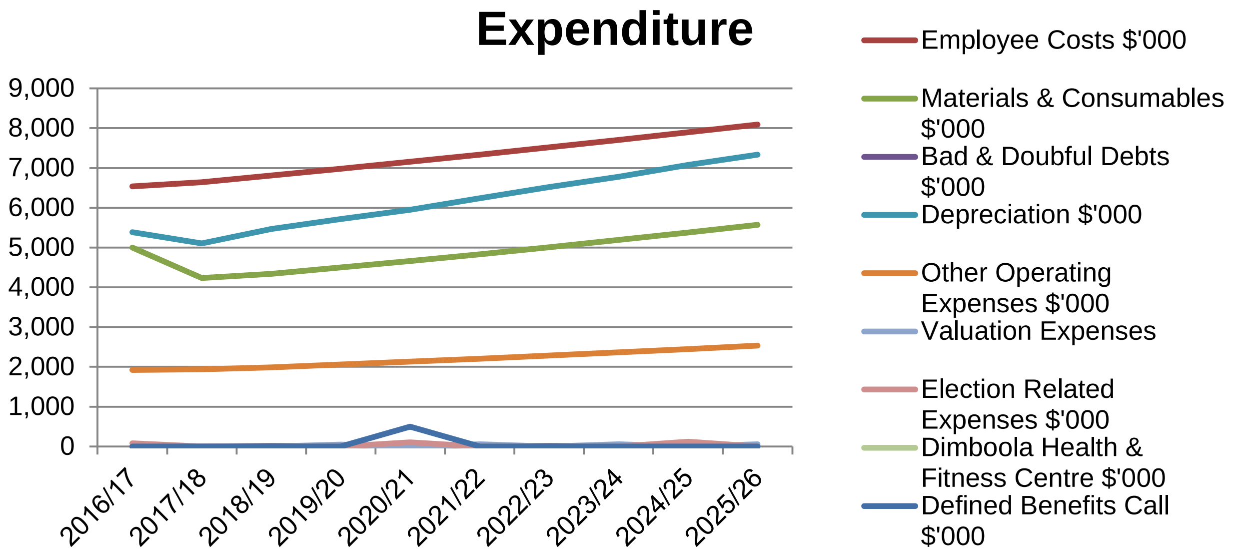




LTFP post rate cap and reduction in state and federal funding, **4% higher cap**:







Victorian Auditor General** - **results of the 2015–16 local government audits

The Victorian Auditor-General's report was tabled in Parliament on 24 November 2016. The report presents the results of VAGO's financial audits of 104 entities within the Local Government sector comprising 79 councils, 11 regional library corporations and 14 associated entities.

VAGO has summarised the outcomes of the financial audits in a snapshot of all councils' performance for the 2015/16 year. The report provides an assessment of the financial sustainability risk faced by the 79 Victorian councils. To be financially sustainable, councils must generate enough revenue from their own operations to meet their financial obligations, and to fund asset replacement and asset acquisitions.

To be able to compare like councils, all councils are divided into five cohorts – metropolitan, interface, regional city, large shire and small shire councils. A small shire council is defined as a municipality with less than 16,000 inhabitants that is predominantly rural in character. Hindmarsh Shire Council fits in the small shire council cohort.

VAGO made specific mention that small shire councils, while largely financially sustainable at present, face ‘relatively higher’ financial pressure to remain sustainable in the future:

“*Our financial sustainability analysis of the five council cohorts indicated that, taken collectively, the 19 small shire councils have emerging financial sustainability risks.*

This cohort generated a combined net deficit of $0.1 million for the 2015–16 financial year, $67.3 million less than last year. This related directly to the timing of the financial assistance grants. This cohort did not collect other revenue to counteract this impact, unlike other cohorts within the sector. This resulted in increased financial sustainability risks for the small shire council cohort.

Looking ahead, the small shire council cohort is expecting to experience a decline in capital grant revenue over the next three financial years. From our review of the cohort councils' unaudited budgets, this loss of revenue - combined with a steady level of expenditure—will have the following impact:

- *a decline in the net result of the cohort*
- *a reduction of funds available for investment in property, plant and equipment—with the number of councils within this cohort forecast to spend less than depreciation on their assets over each of the three financial years.*”

VAGO notes the impact of the early first instalment of the 2015/16 Financial Assistance Grants (FAG), which councils would ordinarily have recorded in 2015/16 but which instead was recorded in 2014/15, and the late payment of the 2016/17 FAG first instalment which was paid in 2016/17, and continues:

“*In 2014, the Commonwealth Government announced that it would stop indexation of the financial assistance grant until 2017–18. This means that the total value of the grant provided to Victoria will be similar each year until 2017–18, and may not reflect the cost increases councils incur as they provide services to their communities. As a result, councils will need to ensure they have other funds available to meet any shortfall in grant funding.*”

VAGO concludes the financial sustainability assessment:
“At 30 June 2016, the local government sector had a relatively low financial sustainability risk assessment.

However, the small shire council cohort is facing an increased financial sustainability risk, with budget projections for the next three financial years showing a fall in expected revenue. This will reduce the funds these councils have available to invest in new and replacement assets which may adversely affect the services they can provide to their communities.”

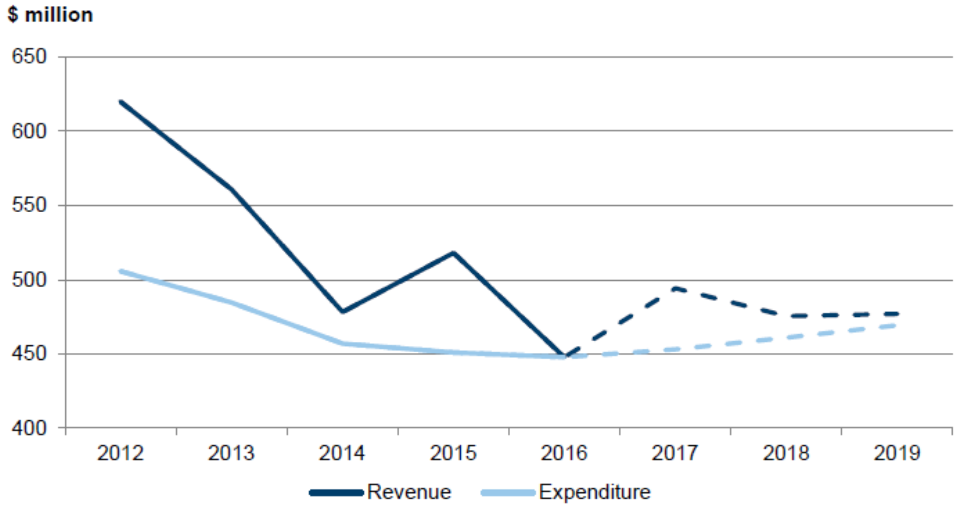
VAGO uses six financial sustainability risk indicators over a five-year period to assess the potential financial sustainability risks in the local government sector. The indicators used in the assessment reflect short- and long-term sustainability, and are measured by:

- **underlying result** — councils generate enough revenue to cover operating costs (including the cost of replacing assets reflected in depreciation expense)
- **liquidity** — have sufficient working capital to meet short-term commitments
- **internal-financing** — generate sufficient operating cash flows to invest in asset renewal and repay any debt it may have incurred in the past

- **indebtedness** — are not overly reliant on debt to fund capital programs
- **capital replacement** — have been replacing assets at a rate consistent with their consumption
- **renewal gap** — have been maintaining existing assets at a consistent rate.

The financial sustainability indicators, risk assessment criteria and benchmarks used in the audit snapshot are described in detail in Appendix 7.

The graph below shows the revenue and expenditure for the small shire council cohort over the financial years ended 30 June 2012 to 2019.



Revenue versus expenditure for the small shire council cohort at 30 June, 2012 to 2019:
Note: Dashed line represents budget information.

VAGO notes:
"(The graph) shows that the revenue for these councils is expected to fall slightly over the budget period, decreasing from $494.3 million in 2016–17 to $476.9 million in 2018−19, a fall of 3.5 per cent. This fall in revenue is linked to an expected 42.5 per cent reduction in capital grants. For these financial years, councils are expecting to generate only small increases in rates revenue - due to rate capping - and expect limited increases in their financial assistance grant.

Over the same period, the cohort's expenditure is expected to increase by 3.6 per cent, from $453.0 million in 2016–17 to $469.3 million in 2018–19. This will result in a small surplus, reducing each financial year. By 2018–19, the cohort projects to generate a collective surplus of $7.6 million."

In his response to the VAGO audit snapshot, the Secretary, Department of Environment, Land, Water & Planning, Adam Fennessy, comments:

"The financial sustainability of small rural councils is also noted. My department is aware that small rural councils face a particular set of challenges. These include structural challenges of large geographic areas, extensive road lengths and a higher dependency upon government grants. These factors together with limited own source revenue opportunities and lower capacity of rural communities to meet additional costs creates a challenging financial sustainability environment.

LGV (Local Government Victoria), in conjunction with Regional Development Victoria will continue to work with rural councils to assist in developing strategies aimed at strengthening financial sustainability. Funding provided by the Local Government Finance and Accounting Support Program (introduced in 2016-17) has been earmarked to benefit rural councils directly in areas such as financial planning, collaboration and efficient business practices.

It is acknowledged that the challenges faced by rural councils will require a suite of mechanisms to enhance local capacity and to address long term financial sustainability."

VAGO's financial sustainability results for Hindmarsh Shire Council are shown in the following table:

		Average across councils for year ended 30 June 2016					
					Forecast		
Indicator		**2013/14**	**2014//15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Net result	%	-4.50	10.70	-3.75	4.23	-2.46	–8.20
Liquidity	ratio	2.02	3.56	2.88	1.36	0.90	0.65
Internal financing	%	32	143	80	92	75	85
Indebtedness	%	1.52	1.24	2.30	1.07	1.05	1.04
Capital replacement	ratio	2.01	1.24	1.14	1.25	1.14	0.88
Renewal gap	ratio	1.83	0.91	0.96	0.98	1.10	0.83

Note: Yellow result = medium risk assessment; green result = low risk assessment.

Council's net result shows the effects of the fluctuations in the pre-payment of the FAGs, the freezing of Financial Assistance Grants (FAG) and introduction of rate capping (at the time our forecasting was assuming a rate cap of 2.5%).

This liquidity result shows Council is currently in a solid cash flow position. However, the forecast to 2018/19 shows a significant deterioration of this position.

The internal financing result reflects the importance of the timing of receipts (2013/14 and 2015/16 were both negatively affected by the first FAG instalment being made in the previous financial year, whereas the next year's first instalment was indeed made in the next year). That this effect is not more pronounced in 2015/16 is due to the increased Roads to Recovery funding received in that year. The gradual decline highlights Council's income reducing relatively to expenditure. It is worth noting, that based on recent advice from the Victoria Grants Commission the first instalment of the 2017/18 FAG payment is also expected to be made in the previous, that is the 2016/17 financial year.

Indebtedness results reflect Council's low level of non-current liabilities.

The capital replacement result indicates that Council will experience difficulties replacing its assets compared to their consumption, while the renewal gap results show that Council has not always been able to renew its existing asset base at the rate that it is being consumed and will experience the same difficulty going forward.

The table below shows the VAGO sustainability indicators projected in Council's Long Term Financial Plan at the 2% average rate cap. Council's long term projections confirm the overall trend apparent in VAGO's 2015/16 audit snapshot:

Council's financial position is unsustainable without significant changes in either income or expenditure.

LTFP based on 2% average rate cap.

VAGO ratios 2%	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	2026/ 2027
Net result	-3.8%	-4.2%	-6.0%	-10.7%	-9.7%	-11.3%	-13.3%	-15.5%	-17.4%	-18.6%
Liquidity	1.51	1.34	0.93	0.43	-0.37	-1.06	-1.64	-2.45	-3.17	-4.14
Internal financing	66.2%	90.0%	79.0%	73.8%	64.9%	67.8%	69.8%	61.2%	62.4%	55.8%
Indebtedness	1.4%	1.4%	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%
Capital replacement ratio	1.27	0.94	0.99	0.89	1.04	0.96	0.86	0.90	0.81	0.87
Renewal gap ratio	1.20	0.90	0.95	0.84	0.99	0.90	0.84	0.88	0.80	0.85

Council is well aware of the fact that an increase of the average rate cap to a 4% higher cap will not address our sustainability challenge on its own. However, it is one essential part in our three-pronged approach.

Alternative revenue streams

While our small, socio-economically disadvantaged and dispersed population severely limits our ability to develop alternative revenue streams, Council has been actively working towards growing revenue from sources other than rates, charges and grants for some years.

Council identified the redevelopment of the Riverside Holiday Park, Dimboola, as an opportunity to grow its revenue from a commercial enterprise. Funded primarily through state government funding, Council has invested more than $1m in the redevelopment of the caravan park since 2015/16. The works are concluding with the installation of five cabins in May 2016/17 and will see Council maximise the revenue from this enterprise. Our business planning forecasts an annual return from the new cabins of $113,000 (at 30% occupancy).

In a bid to increase revenue Council also reviews its fee structure during every budget cycle. However, due to our community's limited capacity to pay (see point 3.3 below) on the whole we are unable to increase fees by more than a small indexation.

Reducing expenditure - savings and efficiencies

Since 2013/14, we have been preparing our annual budget with significant detail, describing all of our accounts down to activity level. We have added to this by developing the financial literacy levels of our staff and community, building their understanding of the budget and its implications for their specific service areas.

This has done two things:

1. It has helped us be able to have very mature conversations with our community about what is in a service and the budget as a whole, and
2. It has developed our staff's passion for savings and ongoing review of how we can do things better.

While our work has not led to substantial changes in services, this is essentially due to the fact that the service levels provided to our community are already at a minimum.

To put this into perspective with just a few examples:

- We are the only Council in the state that does not provide maternal and child health services (other than maintaining two venues).
- Kindergartens in the northern part of our shire are only able to provide 10 hours of four-year-old programs because we have neither the financial nor the human resources to provide 15 hours in each of these small communities.
- Library services in two of our four towns are provided for two hours a fortnight via mobile library.
- Our Nhill cinema opens for two shows a week and is only able to do so because our staff volunteer their time to run the shows.
- Due to our inability to recruit for a part-time position, we have outsourced Statutory Planning, with a town planner on site only 1.5 days/month (we are currently seeking alternative arrangements due to the significant cost and customer service implications).
- Similarly, we have outsourced Building Services, provided locally four days/week.

Savings and efficiencies have, however, been identified over a range of services, see summary below. More detailed information on savings made is provided under *Section 5 Efficient use of Council resources and value for money.*

Services area	Savings/efficiency measures	Savings
Aged & Disability Services	Outsourcing of property maintenance	$11,241/year
	Introduction of HACC Pac Mobile	$16,120/year
Civic Leadership & Governance	Communications Officer	$19,332/year
Asset Management	Discontinuation of STEP Program	$8,200/year
Local Roads and Bridges	Shared procurement of bituminous surfacing program	$120,000/year
	Reuse of crushed concrete waste in place of Class 4 aggregate	$17,500/year
	Project methodology and construction technique changes	$260,000/year
	Changing over of all street lighting to LED.	$30,000/year
Fleet Management	Motor vehicle policy changes – delay change over	$153,000/year
Financial Management	Electronic purchase orders	$8,800/year
Payroll and Human Resources Services	Emailing of payslips, previously issued in hardcopy.	$3,900/year
Customer Services Centres	Change over to updated VOIP phone system	$8,000/year

While we will continue to review the way we work, provide services and maintain our infrastructure, we are already very lean. We expect that future efficiencies will not be able to provide sufficient savings and that these will have to be found from a reduction of services and service levels instead.

3.2 Corporate performance

"Corporate performance" refers to the quality of a council's financial decision making in planning and providing community facilities and services, and in managing resources.

Since we first commenced community planning activities in 2006, we have continually built our community engagement. Council is committed to community development and the involvement of our residents in determining the need for services, infrastructure and the best way to provide them. Our Community Engagement Framework (Appendix 8) confirms

Council's policy commitment to and provides a practical guide for our community engagement.

The last two years have seen an unprecedented amount of community engagement in the development of our Economic Development Strategy, Dimboola and Nhill Community Precinct Plans, Jeparit and Rainbow Community Plans, Sport and Recreation Strategy and farmer consultations.

The feedback and priorities identified have fed back into our draft Council Plan 2017-2021 and draft Annual Budget 2017/18.

Complementing our community engagement is our mature financial planning and reporting.

Our Long Term Financial Plan

In 2013/14, we committed additional resources to our finance team, until then consisting of one rates officer, one accounts officer and one payroll officer. The addition of an accountant and restructure of reporting and oversight provided us with the ability to review our financial reporting and planning.

Our quarterly reports now include a performance dashboard summarising outcomes for key functions of Council, an executive summary providing results at a glance, financial statements and detailed accounts.

In 2013/14, we also implemented a new Long Term Financial Plan (developed by CT Management), using a robust and detailed model capable of considering different financial scenarios.

Our Long Term Financial Plan (LTFP) was assessed for the validity of its underlying assumptions and sound forward planning by Council's internal auditor Phil Delahunty from RSD Chartered Accountants in 2014. At the time, the LTFP projected rates increases of 6% in 2015/16 and 2016/17, 5% in 2017/18, 2018/19 and 2019/20 and reducing to 4% from 2020/21, showing Council's intent to minimise rate increases in the long term. The LTFP recognised that, in the absence of other revenue streams, Council required this level of rate income to remain sustainable and continue to provide the services and maintenance to infrastructure to current standards unless alternative funding can be sourced.

Upon the introduction of the Fair Go Rates System, Council adjusted its LTFP to reflect rate increases of only 2.5% (based on the cap set in December 2015). In recognition of its funding needs, Council noted in an introductory comment to the financial statements contained in its 2016/17 Annual Budget:

"The following Financial Statements project expenditure based on Council's long term service, asset and financial planning. The deficits projected for the years 2017/18 onwards are a reflection of the introduction of rates capping combined with a reduction in state and federal government funding.

Council's medium to long term planning has been based on maintenance of service levels and a continued effort to keep up with the need for renewal of our ageing infrastructure. While the financial statements paint a realistic picture of our service and infrastructure needs, they also reflect that the current financial environment will not allow us to meet *these needs into the medium to distant future without additional revenue and funding sources.*

If such additional income does not become available, service levels will have to be reviewed to maintain a financially sustainable future."

We are currently preparing the budget for the 2017/18 financial year. With no significant changes to the financial outcomes modelled in Council's Long Term Financial Plan and no further funding materialising in the state or federal budgets, Council must apply for a higher rate above the 2% cap set by the Minister for Local Government to meet its renewal targets and deliver on the farmer consultation and strategic planning undertaken in the last couple of years. Financial statements detailing both a 2% and 4% rate increase are attached (Appendix 4). Based on Council's LTFP, 10 year projected income and cash flow statements for both rates increases are also attached (Appendix 6).

In both scenarios, the LTFP plan provides clear evidence that we cannot be sustainable based on rates and charges and own source revenue alone. Sustainability is only possible with an adequate level of financial support from the state and federal governments.

3.3 Sustainable (financial) capacity

Inherent structural characteristics and environmental factors outside our control impacting our ability to raise revenue and contain costs include

- the large geographic area (7,500km^2) we cover and small, dispersed population (the shire's estimated residential population at 30 June 2011 was 5,798); and
- the significant amount of required infrastructure (including 3,177km of roads, six bridges and 27km of pipes/drains).

A further note on our area and demographic: Almost 80% of our population live in the townships of Dimboola, Jeparit, Nhill and Rainbow. Our shire has the second lowest population density in the State of Victoria at less than one person per square kilometre. At the other end of the spectrum, the City of Port Phillip has the highest population density in Victoria with 4,632/per square kilometre. If Port Phillip had Hindmarsh Shire's density, it would have a population of just 16 people. If Hindmarsh Shire had Port Phillip's density, we would have a population of 35 million.

Performance vs. capacity

Financial performance and sustainable capacity are distinctly different aspects of financial sustainability, each requiring different means of assessment. The Victorian Auditor-General (VAGO) and the Municipal Association of Victoria (MAV) use financial indicators to measure financial outcomes.

The Whelan Model *(Merv and Rohan Whelan – "Local Government Financial Sustainability Review" November 2012)* determines the combined impact of inherent factors on the ability of a council to provide required services. These factors include the relative capacity of the community to pay rates, charges and other revenues and the impact of inherent geographic, demographic and financial factors on the ability to provide required services.

A co-author of the Whelan Report conducted annual appraisals of council financial sustainability for Local Government Victoria for the seven year period to 2009. It became clear during these review processes that financial indicators do not explain the substantial differences between councils in capacity to raise revenues and pay for services, and that these differences are directly related to the impact of the inherent factors identified by the studies.

These factors substantially impact on sustainable capacity and must be quantified and applied to establish an objective, reliable means of determining it.

Inherent factors

Sustainable capacity is determined by the Whelan Model using a range of inherent factors that impact on revenue raising capacity and cost levels. These are:

- Capacity of the community to pay;
- Population size;
- Population density;
- Dispersion of the population into townships and rural areas;
- Remoteness of the municipality from major populations centres;
- Aged and infant populations;
- Concentration of service activity;
- Average traffic volumes;
- Bridges and other road cost factors; and
- Tied and untied recurrent government grants.

Rural shire challenges

The Whelan Report classified Victorian councils. Two of the eight classifications included:

- Medium Rural (nine councils)
- Small Rural (nine councils, including Hindmarsh)

It is clear from the Whelan Report that the capacity to pay (C2P) of residents of rural councils is significantly less than residents in other areas, thus affecting the ability of all rural service providers, including local government, to raise revenue to fund services. Some of the factors influencing this conclusion are set out in the following paragraphs taken from the Whelan Report. These are not the only factors analysed by Whelan, but they are the most persuasive and relevant to Hindmarsh.

Capacity to Pay (C2P)

There are two methods consistently proposed for assessing capacity of the community to pay: property valuations (CIV) and net disposable community income (NDCI).

The Whelan report concludes that even though councils use Property Valuations to apportion the rate burden among ratepayers, NDCI is arguably the most appropriate measure for determining a community's Capacity to Pay. The two smallest rural council categories were at a disadvantage in C2P as follows:

Council classification	Average capacity to pay
Small Rural	$33,203
Medium Rural	$43,958
Large Rural	$50,816
Rural Centre	$47,494
Regional City	$64,270
Fringe Metro	$60,632
Low Density Metro	$72,356
High Density Metro	$86,889

Source: 2012 Whelan model (2010 Data)

The Whelan Report concluded that Small Rural Shire residents have only a little more than half the C2P of Regional City and Fringe Metro residents. The Whelan Report noted further that –

There is a strong correlation between council population and C2P. Metropolitan and regional councils have the highest relative capacity to raise own source revenue and rural councils, in particular small rural, have the lowest. Further analysis shows that small rural councils have made the greatest relative use of their capacity.

Cost factors

Many studies have been undertaken to determine the impact of population size on the capacity of councils to achieve economies in service delivery. Perceived gains of larger councils include scale - costs per unit reduce as output (population served) increases – and scope - fixed costs such as administration/capital resources are spread over a range of activities.

1. **Population size**
   There is an indisputable relationship between cost per head and size of population. Large populations support the achievement of economies of scale, resulting in lower service costs.
2. **Population density**
   Provision of services over larger distances increases service costs. Metropolitan councils have the highest population density (285) and small rural councils the lowest.
3. **Council remoteness**
   Remoteness scores for metropolitan councils approximate zero. Small rural councils located farthest from Melbourne and other large population centres, are most negatively impacted.
4. **Road Cost Factors and Bridges**
   Major factors affecting the cost of constructing and maintaining roads include the availability of suitable road making materials, the stability of sub-grades, climatic conditions and the volume of freight traffic.
   Bridges, as part of the local road network and as a function of council geography, add considerably to recurrent costs in certain councils.
5. **Aged and Infant Populations**
   Provision of aged services, maternal health services and other services for young children have a material impact on service costs per head. The 70+ age group was found to most accurately reflect the impact on aged service costs. Small rural councils have the highest percentage of this group (15.69%) and fringe metropolitan the lowest (7.04%).
6. **Effect on costs**
   There is a strong correlation between council classification and Nominal Costs, the variation between metropolitan (lowest) and small rural councils (highest) being over $1,400 per head. Tests carried out using the Whelan Model suggest that population number has the biggest impact on cost per head.

The described increased service delivery cost in rural municipalities compared to metropolitan councils is further supported by the data available on the Know Your Council website.

A comparison of Victoria's most populous municipality, the City of Casey, and Hindmarsh Shire Council, Victoria's third smallest, may illustrate this point:

Indicator	Hindmarsh Shire Council	Similar Councils	City of Casey
Expenses per property assessment	$3,076.45	$3,258.69	$2,336.97
Expenses per head of municipal population	$3,089.32	$2,745.19	$838.52
Infrastructure per head of municipal population	$19,937.60	$22,397.37	$6,067.61
Population density per length of road	1.73	9.74	186.53
Own source revenue per head of its population	$1,810.99	$1,760.95	$782.27
Rates as a percentage of property values	0.69%	0.60%	0.42%

www.knowyourcouncil.vic.gov.au 2015/16 data

The data shows that Hindmarsh Shire Council maintains more than three times as much infrastructure per head of population than Casey, Hindmarsh's expenses per head of population are equally three times the expenses for the City of Casey. The data also shows that we have maximised our capacity to raise own source revenue per head of our population with $1,810.99, compared to Casey's $782.27. (A fact that is even more notable considering the difference in median household income in both municipalities: $785 in Hindmarsh and $1.342 in Casey.

Our local road and bridge network

As described previously, the funding and own source revenue at Council's disposal are insufficient to cover the ongoing maintenance and renewal of our local road and bridge network in the long term.

The following chart shows the funding required to renew Hindmarsh Shire Council's road infrastructure:

Asset	Component	Length	Value	Life	Annual Renewal
Sealed Rd	Gravel	580km	$56m	70yrs	$800,000
Sealed Rd	Seal	580km	$15m	20yrs	$800,000
Sealed Rd	Shoulders	510km	$5m	15yrs	$220,000
Sealed Rd	Kerb	75km	$19m	60yrs	$200,000
Gravel Rd (Class 3 – 5)	Gravel	850km	$18m	15 - 25yrs	$500,000
Bridges/Drains	6 Bridges	27km Pipe	$11m	80 - 100yrs	$150,000
Footpath		39km	$5.5m	25 - 80yrs	$130,000
TOTAL			**$129.5m**		**$2.80m**

The annual renewal targets above are based on reports and condition assessments. With road assets these assessments are conducted by pavement inspection specialists. Our last report was prepared by *Talis Consultants* and issued on 11 April 2017.

The report concluded that, "Given the length of sealed roads, the surfacing has been kept in a serviceable condition which in turn has maintained the integrity of the pavement structure. It should be noted, however, that over 66% of the sealed network has a moderate or worse level of oxidisation which suggests that surface integrity will be compromised in the coming years. This will in turn have a detrimental effect on the life of the sealed pavement requiring costly rehabilitation. Although currently in a serviceable condition, it is likely that the resurfacing backlog will significantly increase if not addressed."

The Talis report, and our own modelling, project the "required" infrastructure spending over the next 10 years, and beyond.

As part of a long term MAV Asset Renewal Gap survey in 2015, Council's engineering department has undertaken a further calculation of the required expenditure over the next 10 years, considering only at renewal demand expenditure and proposed funding. This calculation shows a renewal shortfall each year averaging $504,500.

It is important to note that this analysis does not take into account our $25m of building assets. Many of Council's buildings were constructed in the post 2nd World War building boom, and the end of their economic life will create an even larger "hump" of renewal expenditure required in the future.

While Hindmarsh Shire Council's financial indicators suggest we are slightly better placed than half of our rural peers (or slightly worse than the other half), we still have a significant known infrastructure gap to manage, a clear indicator that we are not deriving sufficient funds to meet our present capital expenditure needs.

3.4 Conclusion

Council has always considered our community's reduced capacity to pay and been reluctant to increase rates at a high level. However, our inability to raise funds from other sources has meant that historically Council has been forced to increase rates by more than the current rate cap of 2% to maintain its services and assets.

Metropolitan councils can minimise the impact of rate capping by increasing their income from other sources such as parking and facility entry fees, as a rural council we have no such ability.

Coming from a lean base and with substantial savings already created in the past, future efficiencies will become increasingly difficult to find, leaving us with no other option but to reduce service levels and infrastructure in coming years should no other revenue sources or increased government funding become available.

The disparity between rural and metropolitan councils' capacity to raise revenue already sees the generation of a two-tier country with those living in small rural shires not able to access a reasonable set of services and continually fighting to remain financially sustainable.

While our community is realistic and does not expect the exact same level of services as those provided in a city, the disparity has a direct impact on our residents' health, wellbeing and prosperity, and the liveability of our community. If we are not providing a liveable environment for those living and working here, we will see a decline of our communities that will further exacerbate our precarious position.

4. Views of ratepayers and the community

With a strong history of community engagement behind us, we have undertaken an unprecedented amount of community consultation over the last couple of years, including for the development of Jeparit and Rainbow Community Plans, Dimboola and Nhill Community Precinct Plans, Hindmarsh Youth Strategy, Hindmarsh Shire Sport and Recreation Strategy and Economic Development Strategy. Council has also engaged strongly with our farming community to determine priorities for the maintenance and development of our road network.

Our community engagement throughout the municipality has helped us determine the views of our ratepayers and residents in relation to what services and infrastructure are important to them and assisted in prioritising and aligning the expectations of our community with our capacity to deliver. We simply cannot afford to be spending money on activities that do not meet our community's needs. The strategic plans have helped us understand the needs of our community and establish consensus on priority projects, services and infrastructure with a view to Council working with the communities to deliver the priorities over a period of time. On the other hand, the plans have helped our community understand our financial environment and the need to make choices and establish priorities.

We are particularly proud of our farmer consultations. This ongoing conversation with our farming community commenced in 2015 with 11 community forums across the shire. In these sessions we discussed our financial environment and challenges, explained how we determine what infrastructure works we will be undertaking in any financial year and sought feedback from the farmers in attendance about our road management plan. Attendees workshopped what roads were of particular importance in their local area so that our limited resources could be put towards works that would have the biggest impact. Attendees also identified particular issues of concern, including tree trimming and removal. Based on the feedback from these consultations, we created a new category of road, 6S Rural Road Strategic, in our Road Management Plan and shifted resources towards the roads and works identified.

The community participation for each of the strategic plans mentioned above is detailed in the following table:

Strategic Plan	Participation and engagement
Jeparit Community Plan	9 surveys returned 2 community workshops, 20 attendees
Rainbow Community Plan	21 surveys returned 2 community workshops, 70 attendees
Dimboola Community Precinct Plan	112 only and hardcopy surveys returned 2 community workshops, 55 attendees 1:1 meetings and community listening posts
Nhill Community Precinct Plan	115 online and hardcopy surveys returned 2 community workshops, 40 attendees 1:1 meetings and community listening posts
Hindmarsh Youth Strategy 2016-2020	279 young people (50% of the target population) provided input through surveys and Hindmarsh Shire Youth Council
Economic Development Strategy	1:1 meetings, telephone interviews, community workshops and project meetings with the EDS Advisory Committee. 2 community workshops, 100 attendees
Hindmarsh Shire Sport and Recreation Strategy	Surveys and community meetings in conjunction with precinct plan consultation.
Farmer consultations	11 community workshops, 200+ attendees

A snapshot of priorities from our consultations is shown below. The extensive list of priorities was edited to those that could be achieved with external sources of funding or minimal Council finances.

Strategic Plan	List of Priorities		
	Short Term (1-2 years)	**Medium Term (2-5 years)**	**Long Term (5+ years)**
Jeparit Community Plans	Streetscape improvements Residential property clean-up	Establishment of Neighbourhood House	Installation of family cabins at Jeparit Caravan Park
Rainbow Community Plans	Skate Park delivery Youth activities Establishment of Rainbow Oasis	Rainbow Rec Reserve Change Rooms	Alpine School Recreational water/Ross Lakes
Dimboola Community Precinct Plan	Dimboola Library/Civic Hub Indigenous Keeping Place – planning & advocacy Industrial Estate – planning Skate Park delivery Public Art/Street Art Ongoing path/trail development	Industrial Estate - delivery Indigenous Keeping Place – delivery Planning – develop detailed Recreation Reserve Master Plan	Community Pavilion Delivery of Master Plan initiatives
Nhill Community Precinct Plan	Multicultural/Community Hub Industrial Development - rail siding Planning – develop detailed Recreation Reserve Master Plan (cane ball court, soccer) Skate Park planning, design & funding application Nhill Lake improvements	Delivery of Master Plan initiatives Nhill Library - planning Development of land opposite Nhill Hospital Nhill Aerodrome Master Plan Skate Park delivery	Delivery of Master Plan initiatives
Hindmarsh Youth Strategy	Implement youth led mental health/sexual awareness initiatives Promote mentoring Promote traineeships and work experience Twilight cinemas & calendar of events/activities for young people Facilitate leadership programs	Review Youth Strategy	Implement Youth Strategy
Hindmarsh Economic Development Strategy	Uber – community transport solution Business and social enterprise incubators, support of young entrepreneurs Events Tourism – planning (Tourism Strategy) Events incl. HPV, Rainbow Desert 400	Encourage investment in housing stock Development of marketing strategy Tourism – accommodation (farm stay) and product (Trail) Industrial estate Review of MSS and planning scheme for industrial development and residential	Food – value add ("local produce" etc.)

Strategic Plan	List of Priorities		
	Short Term (1-2 years)	**Medium Term (2-5 years)**	**Long Term (5+ years)**
		development (Dimboola & Nhill)	
Hindmarsh Sport and Recreation Strategy	Informal recreation activities – more outdoor gyms along trails, how to use Jeparit and Rainbow annual community events		
Farmer consultation	An extensive, prioritised list of road maintenance work and tree removal/trimming		

We have taken the needs and aspirations raised by our community into account in our draft Council Plan 2017-2021 and Annual Budget 2017/18 and will work toward securing external funding wherever possible. We value the tremendous partnership we have with our community and acknowledge the hard work of the committed band of volunteers throughout our entire municipality who not only helped identify their community's aspirations but also are actively involved in turning these aspirations into reality.

We are proud of the fact that we perform significantly higher than other councils in Victoria in our community consultation and engagement. Our results from the 2015/16 Community Satisfaction Survey are shown below:

Indicator	Hindmarsh Shire Council	Similar Councils	All Councils
Community satisfaction with community consultation and engagement	59/100	53/100	55/100
Community satisfaction with council decisions	57/100	53/100	54/100

www.knowyourcouncil.vic.gov.au 2015/16 data

Respondents were also asked to name "the one best thing about Hindmarsh Shire Council". The responses received illustrate the strong relationship we have built with our community, with 16% of respondents choosing "Councillors" as the "best thing" and "Council Management" as well as "Council staff" also rating a mention (3% each).

In preparing our 2017/18 Annual Budget and considering a rate cap variation, we have engaged with our community in eight Community Conversations held across the Shire. Meetings at Antwerp, Rainbow, Broughton, Woorak, Winiam, Jeparit, Nhill and Dimboola were attended by 97 residents.

The workshops provided information on

- Council's draft Council Plan 2017-2021, incorporating the Municipal Health and Wellbeing Plan;
- our achievements over the term of the previous Council Plan;
- a summary of our budget and sustainability challenges, including the political environment and reduction of state and federal government funding combined with the introduction of rate capping;

- our capital works budget, projects proposed in the coming years and methodology in determining these projects; and
- the impact of a 2% variation to the average rate cap on our budget and our ratepayers.

At the conclusion of the formal presentation community members were invited to provide feedback in relation to the services they value and what aspects of Council's service delivery and infrastructure maintenance and renewal could possibly, in their view, be reduced or eliminated.

Feedback forms provided opportunity for attendees to comment, either at the meeting or later, on the Council Plan, Health and Wellbeing Plan, and a proposed 2% variation of the rate cap. Of the 27 surveys returned, 18 or 66.7% voted in favour of a variation to the rate cap, one or 3.7% voted against, and eight or 29.6% did not express a preference either way.

Comments included:

- *"Yes - Query spending at kindergarten and childcare centre as a parent a few years ago I've only since seen a reduction in services but an increase in costs."*
- *"Yes - However better efficiencies must be accomplished."*
- *"No - Tourist offices need looking at."*
- *"It's not that simple. People don't want to pay more if they don't see efficiency. I'm happy to pay more to go towards roads if I don't perceive the council to be paying big money for dead weight."*

Feedback also raised the importance of road maintenance, tree trimming, Albacutya Bridge, Business Grants, Hindmarsh Youth Council, Community Plans, tourism, Corella control and advocacy for television and mobile phone reception.

Council has engaged on the matter of infrastructure works and budget in the past, taking our 2015/16 and 2016/17 Annual Budgets on a similar "road show" to our communities. At the time, Council also provided public notice and the opportunity to make submissions in relation to the preparation of the Council Plan, Budget and Strategic Resource Plan.

One submission was received regarding the 2015/16 Annual Budget, noting the resident's disappointment about the proposed budget and the loss of federal and state government funding reflected in it. The submission referred to the restrictions placed on Council's ability to construct new roads and develop infrastructure in accordance with the three-year capital works plan previously established by Council. The submission asked Council to pass on to the federal and state government the disappointment of local residents about the funding changes and the impacts they will have on the future our towns. It encouraged Council, within the many constraints imposed on it, to continue to implement its improvements plans for Dimboola as and when suitable opportunities present themselves.

Four written submissions were received for the 2016/17 Annual Budget. Submissions asked Council to invest in sustainability, tourism and economic development and review non-performing assets; requested Council to adopt a lump sum rate payment option; and sought urgent action be taken on safety risks associated with Kiata South Road.
While only a small number of submissions has been received in previous years, their content shows that our conversation with our community is at a mature level and based on a good understanding of our financial environment.

Council has also issued media releases in relation to our variation request. The issue was covered in the Dimboola Banner on 10 May 2017, the Rainbow Jeparit Argus on 11 May 2017, the Nhill Free Press on 10 May 2017, the Wimmera Mail Times on 8 May 2017 and ABC Western Victoria's local news on 16 May 2017.

5. Efficient use of Council resources and value for money

In seeking a benchmark for our performance we have compared our results from the Local Government Performance Reporting Framework with the results of similar and all councils as represented on the Know Your Council website. We have also reviewed the results from the state-wide Community Satisfaction Survey to assess how well we are performing compared to our peers. We believe the results indicate strongly that we are using our resources efficiently and provide value for money to our residents and ratepayers.

Local Government Performance Reporting Framework:

Measure description	Hindmarsh Shire Council	Similar councils	All councils
Animal Management			
Time taken to action animal management requests	1 days	1.68 days	2.19 days
Cost of animal management service per registered animal	$74.42*	$53.86	$49.59
	* incl. backfill by contractor at higher cost during extended sick leave		
Food Safety			
Time taken to action food complaints	1.4 days	1.97 days	2.15 days
Percentage of required food safety assessments undertaken	75.64%	82.01%	90.39%
Cost of food safety service per premises	$740.23*	$529.56	$501.67
Percentage of critical and major non-compliance outcome notifications followed up by council	100.00%	86.08%	92.49%
Governance			
Community satisfaction with community consultation and engagement	59 /100	53.95 /100	55.33 /100
Councillor attendance at council meetings	97.62%	91.12%	91.17%
Cost of governance per councillor	$42,121.33*	$37,091.67	$48,651.86
	* incl. $5,397.27 travel costs due to travel distances within our municipality (attendance of Council meetings and official functions)		
Community satisfaction with council decisions	57 /100	53.16 /100	54.56 /100
Home and Community Care			
Time taken to commence the HACC service	6.64 days	10.21 days	18.68 days
Compliance with Community Care Common Standards	100.00%	83.01%	87.09%
Cost of domestic care service	$46.40	$54.68	$53.80
Cost of personal care service	$42.77	$49.11	$50.66
Cost of respite care service	$45.47	$53.07	$54.04
Percentage of eligible residents receiving HACC services	60.85%	35.79%	26.66%
Percentage of eligible CALD residents receiving HACC services	60.53%	21.89%	19.15%
Libraries			
Number of times a library resource is borrowed	1.39 items*	2.46 items	4.62 items
Proportion of library resources less than 5 years old	41.75%	53.72%	63.51%
Cost of library service per visit	$5.47	$8.20	$6.70
Active library members in municipality	10.64%*	17.98%	17.78%
	* negatively impacted by limited access to library services for two of our towns		
Roads			

Measure description	Hindmarsh Shire Council	Similar councils	All councils
Sealed local road requests per 100km of sealed local roads	27.72 requests	24.77 requests	36.56 requests
Sealed local roads maintained adequately	97.72%	97.09%	96.64%
Cost of sealed local road reconstruction per square metre	$29.36	$41.88	$81.53
Cost of sealed local road resealing per square metre	$4.32	$4.83	$13.25
Community satisfaction with sealed local roads	45 /100*	51.37 /100	55.50 /100
	* the detailed information available from the Community Satisfaction Survey indicates confusion about responsibility for specific roads, in particular the large number of VicRoads roads in the north of our municipality. Overwhelming feedback from our consultations has in fact been the opposite, that Council roads are in good condition, encouraging drivers to divert from VicRoads roads onto ours (which will increase pressures on our maintenance regime).		
Statutory Planning			
Time taken to decide planning applications	43 days	45.63 days	69.46 days
Planning applications decided within 60 days	97.22%	78.69%	69.79%
Cost of statutory planning service per planning application	$4,241.86*	$2,033.65	$2,033.27
	* current high cost contract under review, seeking more customer friendly and cost effective solution		
Council planning decisions upheld at VCAT	100.00%	80.00%	66.75%
Waste Collection			
Kerbside bin collection requests per 1,000 households	10.16 requests	57.85 requests	96.80 requests
Kerbside collection bins missed per 10,000 households	2.12 bins	2.41 bins	4.16 bins
Cost of kerbside garbage bin collection service per bin	$164.20*	$104.72	$100.59
Cost of kerbside recyclables collection service per bin	$78.05*	$58.62	$38.04
Kerbside collection waste diverted from landfill	21.88%	38.43%	42.92%
	* the higher costs are reflective of the necessity to transport all waste 75km to Dooen Landfill.		
Financial Performance			
Average residential rate per residential property assessment	$1,107.54	$1,335.18	$1,524.69
Expenses per property assessment	$3,076.45	$3,258.69	$2,948.33
Sustainable Capacity			
Expenses per head of municipal population	$3,089.32	$2,745.19	$1,834.40
Infrastructure per head of municipal population	$19,937.60	$22,397.37	$13,443.42
Population density per length of road	1.73 people	9.74 people	102.15 people
Recurrent grants per head of municipal population	$916.32	$727.57	$354.89

www.knowyourcouncil.vic.gov.au 2015/16 data

Community Satisfaction Survey:

Five of our six core measures in the state-wide Community Satisfaction Survey (overall performance, overall council direction, customer service, community consultation, advocacy and making community decisions) were significantly higher than the state-wide averages for these measures. Further, index scores on the individual service areas of informing the community, elderly support services and the appearance of public areas were also significantly higher than the state-wide averages.

Performance measures	Hindmarsh Shire Council 2016	Small rural 2016	State-wide 2016
Core measures			
Overall performance	62	57	59
Community consultation	59	55	54
Advocacy	59	54	53
Making community decisions	57	53	54
Sealed local roads	45	52	54
Customer service	73	69	69
Overall council direction	57	50	51
Service index scores			
Appearance of public areas	74	73	71
Elderly support services	72	70	68
Waste management	68	69	70
Recreational facilities	67	68	69
Enforcement of local laws	63	64	63
Environmental sustainability	62	61	63
Informing the community	62	58	59
Local streets and footpaths	59	58	57
Business/community development/tourism	58	61	60
Planning and building permits	47	50	50

Savings and efficiencies

Council has taken significant steps to review its many services, including community need for and cost of the service. Our Annual Budget provides detail down to activity level, meaning that the cost of all of our services is very transparent to community and staff alike.

The following examples are provided in order to demonstrate Council's commitment to spending rate payer funds wisely and being as efficient and lean as possible while providing an adequate level of service. (A snapshot of cost savings and efficiencies created is also included in *Section 3* of this application, *Reasons for which the Council seeks the higher cap, 3.1 Financial performance*).

- Our Aged and Disability Services Team has outsourced the provision of **property maintenance** to a contractor, at $25/hour, where we previously employed part-time staff at $37.49/hour (incl. oncost). At 900 funded target hours this equates to a saving of up to **$11,241/year**.

- We have introduced **HACC Pac Mobile** to manage the rostering and payroll of our home and community care staff. The system uses QR codes and mobile phones to record the time our staff spent with clients, automatically matching the data to our roster and creating time sheets. A new debtor interface has streamlined the reporting to our accounts department, reducing the time taken to create client invoices. Savings are estimated at $310/week or **$16,120/year**.

- Removal of a part-time position, **Communications Officer**, and sharing of responsibilities by other staff, a saving of **$19,332/year**.

- Discontinuation of the **STEP Program**, a saving of **$8,200/year**.

- A shared procurement program, the Wimmera Regional Procurement Excellence Network (WRPEN), which undertook a collaborative tender process on behalf of Hindmarsh Shire Council and four other Wimmera councils to find a single contractor to deliver the region's **bituminous surfacing program**. The rates offered for the first three years of the contract have represented an average saving of 10 – 15% on anticipated costs that Council would have achieved via independent tendering. Over the three years of the contract, Council has spent $699,197.81, $476,022.06 and $1,039,913.60, with expenditure in 2017/18 expected at approximately $800,000. Savings range from **$50,000 to $120,000/year**, depending on the size of the contract.

- Our Infrastructure Services Team is **crushing concrete waste** at our transfer stations, reusing the crushed material as a base product for curbing and drainage. The savings from this over using Class 4 aggregate equate to an estimated **$17,500/year**.

- Our Infrastructure Services Team has also implemented substantial efficiencies in **project methodology and construction techniques**, equating up to **$260,000/year**, depending on the scale of our program.

Program	Efficiency	Efficiency (saving) $	Fully implemented?
Road designs	Road designs contracted to larger Local Government authority resulting in cheaper designs than if contracted to design companies	25,000	Monitoring
Gravel cartage	Carting gravel to work site prior to grader team arriving minimises down time, therefore resulting in savings. ($25,000 x 1 large project, $5,000 x 5 smaller projects)	50,000	On-going
Reconstruction of sealed roads	In some situations pavements have been stabilised, resulting in re-use of in situ-gravel. Savings therefore made in material and carting costs	25,000	Trial
Reconstruction of sealed roads	Instead of reconstructing, a 'slurry seal' was trialled on Katyil Wail Road	40,000	Trial
Reseal	Reseal budget - by extending length of projects reduces the unit rates	20,000	On-going
Bridges	Bothe Road Bridge project - Box culverts used instead of reconstructing the bridge	100,000	Trial
		260,000	

These significant efficiencies are also reflected in the cost of road construction and resealing as reported on the Know Your Council website:

Indicator	Hindmarsh Shire Council	Similar councils	All councils
Cost of sealed local road construction/m^2	$29.36	$41.88	$81.53
Cost of sealed local road resealing/m2	$4.32	$4.83	$13.25

www.knowyourcouncil.vic.gov.au 2015/16 data

- Hindmarsh Shire Council was part of the **Lighting the Regions** project which saw the replacement of more than 22,000 mercury vapour streetlights with energy efficient LED lights across the Wimmera Mallee. The installation of LED streetlights has reduced our electricity cost by approximately **$30,000/year**.

- For many years Council's **motor vehicle policy** was for new vehicles to be purchased every two years or at 80,000km, which ever was the earlier. With the purchase of diesel vehicles it was determined that changeover is only required every 120,000km for passenger vehicles and 150,000km for our utilities (or three years). The loss in trade-in price is negligible, creating average savings of **$150,000/year**.
  We have also relocated a council vehicle from our Nhill office to Rainbow so that it is available for our North Ward Councillor and Rainbow staff. The travel distance for our Rainbow Councillor to attend a Council meeting is 75km each way, the use of a Council vehicle rather than reimbursement of kilometres travelled will save approximately **$3,000/year**.

- In 2016/17, we implemented an **electronic purchase order system**. The system has eliminated the need to print purchase order books, generating direct savings of $1,000/year. Staff are now able to "clone" recurring purchase orders rather than having to write out an entirely new one every time. The system also allows our accounts payable team to bring up the purchase order number which will prefill the data required, so the team only has to verify that amounts and ledgers are correct, rather than having to input every invoice manually. The efficiencies from this process are estimated at $300/fortnight, creating annual savings of **$7,800**.

- We have recently introduced **electronic payslips**. Until May 2017, all payslips were printed and distributed as hardcopies. We expect this measure will save approximately $150 each fortnight, creating annual savings of **$3,900**.

- We are currently in the process of rolling out a new **Voice over Internet Protocol** phone system. Council was one of the first municipalities in the state to roll out one of these systems almost ten years ago. As the technology was still in its infancy then and internet capability in our rural location limited, we have not been able to utilise it to its fullest capacity. While we are still negotiating the required internet upgrade, we expect the new system will create savings of approximately **$8,000/year**.

- Together with our regional peers we are exploring the opportunities for shared services, in particular in **building and planning services**. As a small rural council we do not require full-time building or planning staff, however, our remote location means that we have been unable in the past to recruit staff to part-time positions. Unfortunately, this means that we are currently paying a premium for positions that are contracted out.

6. Consideration to reprioritising proposed expenditures and alternative funding options

Due to the small size of our budget and reliance on external funding, we have always worked hard to keep our costs to a minimum and work as effectively and efficiently as possible. Our team, from our Councillors down to our casual staff, are very conscious of our financial position and go out of their way to save costs, whether that be making do with a ten year old printer or cooking a barbeque at a function rather than bringing in external caterers. Because "running on the smell of an oily rag" has always been such an important part of our organisational culture, we find ourselves both in a better and worse position than our rural peers.

Better, because our past frugal spending has meant that we have been in a reasonably stable financial position until a range of state and federal government decisions acted against us, worse because we have nothing superfluous or extravagant to cut from our business to respond to those decisions. Despite the state government's opinion that the sustainability challenge rural councils face can be addressed at the corporate, that is the financial planning and reporting level, neither our financial management expertise, nor wasteful expenditure are the problem here. The problem lies firmly on the income side and lack of alternative funding options.

6.1 Alternative funding options

Alternative income

As detailed in *Section 3, Reasons for which the Council seeks the higher cap*, due to our location and small population base, we do not have avenues to raise alternative revenue available to us. The vast majority of our income, 82%, comes either from rates and charges or government grants.

Borrowing

Council does not have any borrowings, having paid back its last loan about ten years ago. While we would consider using borrowings as an alternative funding option for a significant intergenerational asset, like the $3.3m rebuilt of the Albacutya Bridge, we are very conscious of the repayment impact on our future cash flows and the risk of overcommitting ourselves financially. A $1m loan for example would add additional expenses to our cash flow that would outweigh a 1% rate increase.

We will instead continue to seek external funding to minimise the finances required from Council. Where the asset in question is a community asset like a recreation reserve or club room, we will also seek financial and in-kind contributions from the community groups involved. We have a strong track record in funding substantial capital works through an innovative mix of sources, including the $2.5m Nhill Early Years Centre which was funded by all three levels of government, philanthropists and community fundraising, or the $268,000 Menzies Square redevelopment in Jeparit which was funded through a combination of Council, state government, philanthropist and Federation University cash and in-kind contributions.

Borrowing to meet our day-to-day operational and service delivery costs would be irresponsible financial management.

Leasing

When there are major items of expenditure like plant, Council always considers all options, including outright purchase vs leasing. However, in the current uncertain financial environment, we would generally consider it more prudent and financially responsible to pay upfront rather than commit ourselves financially for a period of time.

We have also made use of leasing arrangements for minor items of equipment like our photocopiers and printers in the past as a cost efficient option to purchasing.

Special Charge Schemes
Council has in the past used the special charge provisions of the Local Government Act 1989 to provide new or upgraded infrastructure where this infrastructure was of “special benefit” to particular residents.

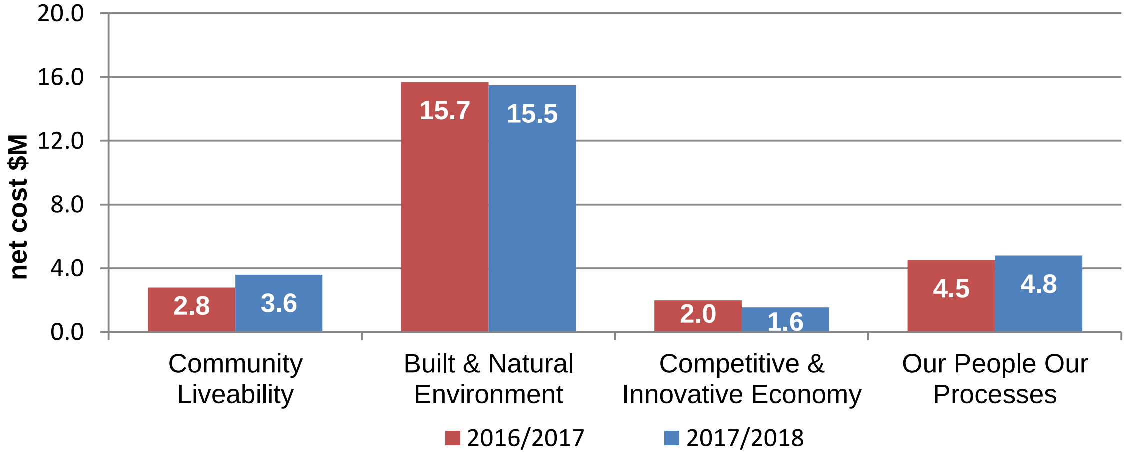
However, Council’s capital works efforts have long focussed on renewal. New or upgraded infrastructure has been of a nature that it did not lend itself to a special charge scheme, for example the aforementioned Nhill Early Years Centre.

With our financial limitations becoming ever more severe, Council’s priority is to meet, as close as possible, its renewal requirements. Neither our draft 2017/18 annual budget nor our four year capital works plan contain new or upgrade initiatives suitable for a special charge scheme.

6.2 Reprioritising expenditure

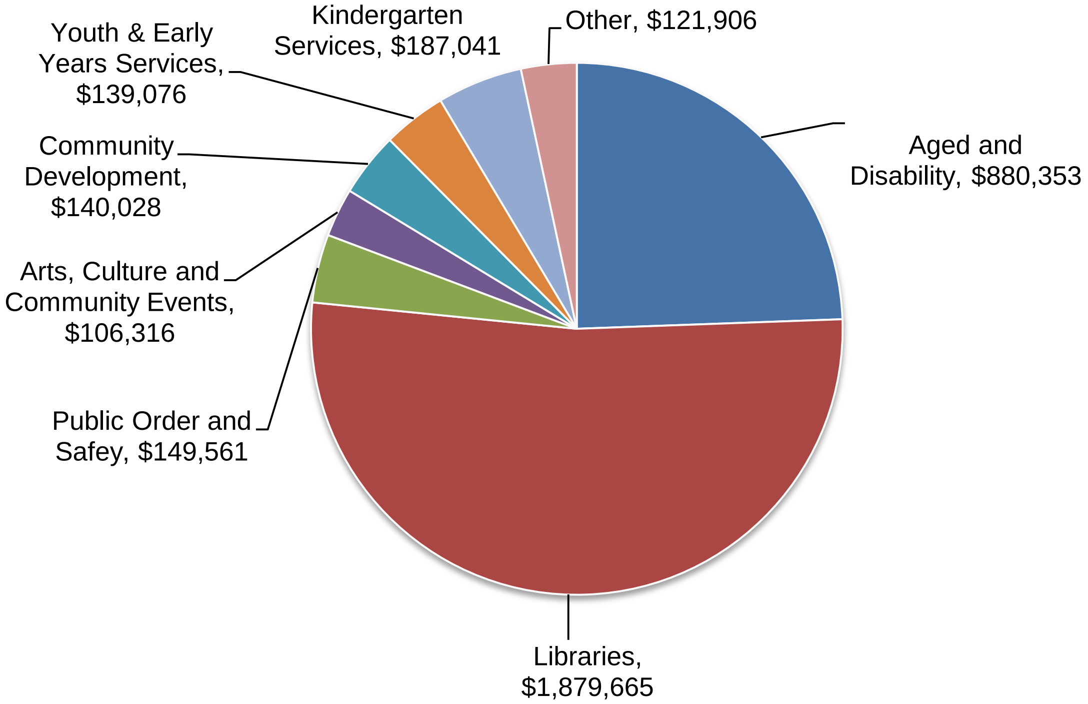
A breakdown of Council’s expenditure as proposed in our 2017/18 budget is shown below. More detailed information is provided in our baseline financial statement (Appendix 1).

Expenditure by Key Result Areas
The following chart shows where Council’s expenditure will occur across the four key result areas listed in the Council Plan and provides a comparison to the 2016/17 financial year. The Built and Natural Environment clearly consumes the majority of Council’s funds. This area includes expenditure on roads, bridges, drainage, paths and trails, tree management, town beautification, community centres and public halls, recreation facilities, waste management, quarry operations, waterway management, environment and fire management.

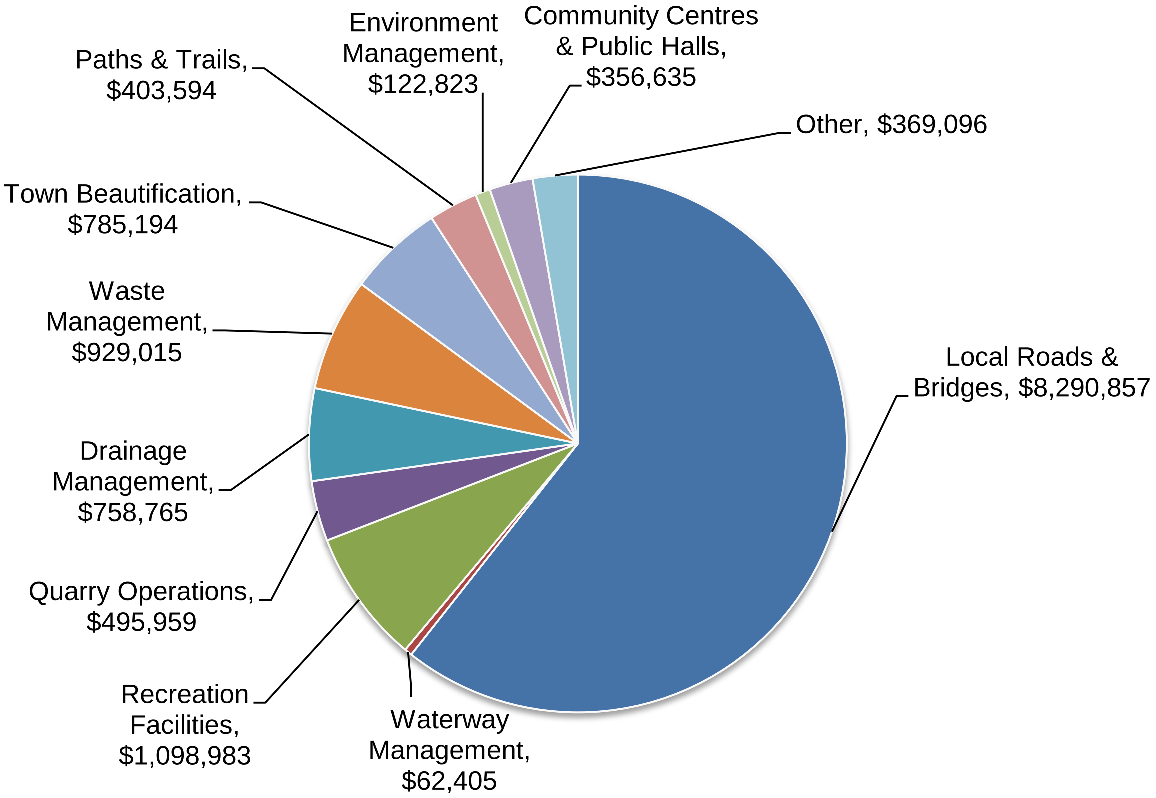


The breakdown of expenditure in the four Key Result Areas is detailed in the charts below.

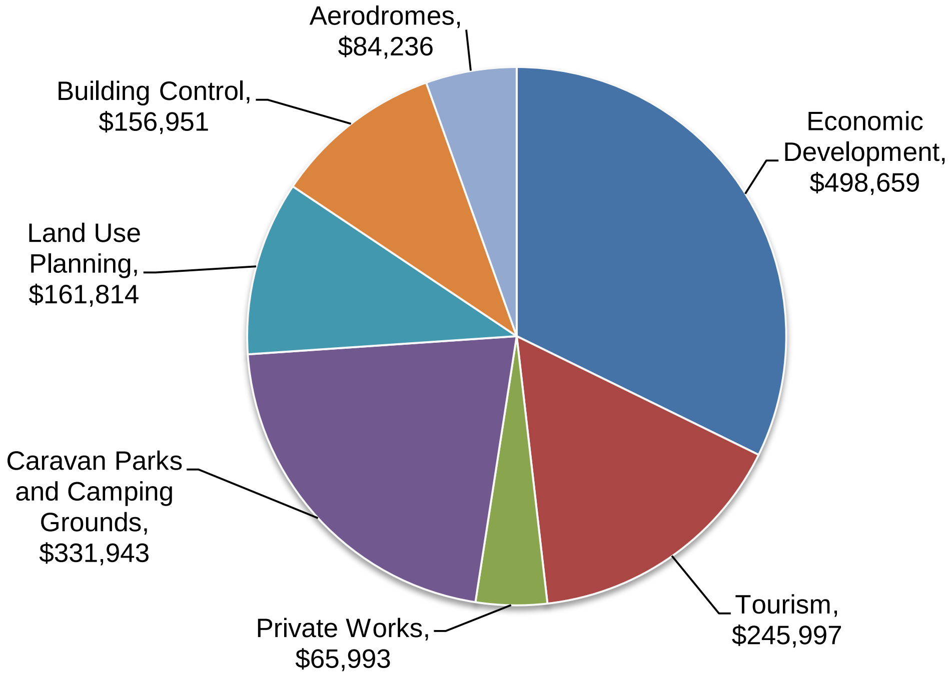
Community Liveability



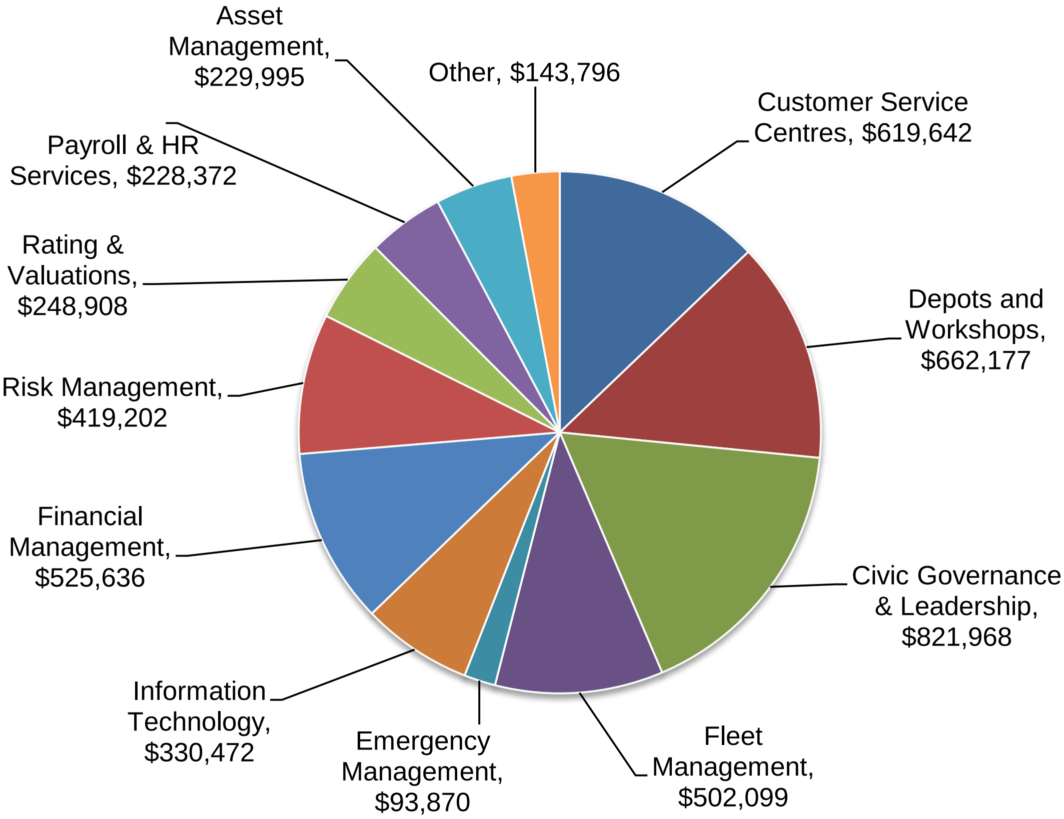
Built & Natural Environment



Competitive & Innovative Economy



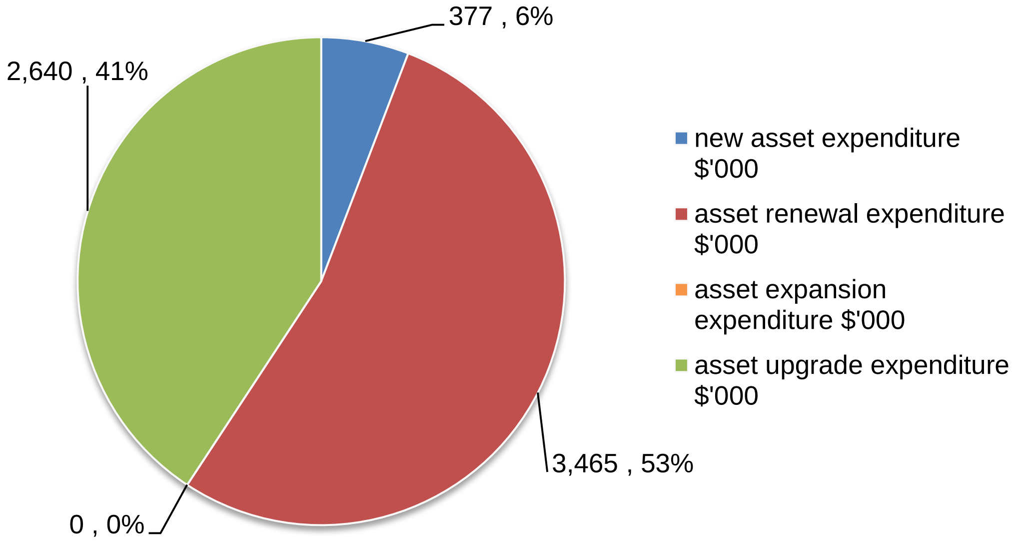
Our People, Our Process



Infrastructure

The charts show that our expenditure overwhelmingly goes towards the maintenance of and capital works on our roads infrastructure assets. In our capital works budget alone, 42% of expenditure goes directly towards roads, 16% towards road related infrastructure like bridges, drainage etc., 12% towards plant and equipment, 5% towards other infrastructure and 25% towards buildings. The latter is the redevelopment of our customer service centre and public library in Dimboola. Identified in the Dimboola Community Precinct Plan, Council has committed $200,000 of its own funds to this project, seeking the remainder from state and federal government.

Of our capital expenditure 53% of expenditure are renewal, 6% new (including $200,000 for the construction of new skate parks in Dimboola and Rainbow, jointly funded by state government and Council) and 41% upgrade infrastructure (including the aforementioned Dimboola library as well as Albacutya Bridge, both expected to be completed with comparatively small Council contributions, $200,000 and $825,000 [$325,000 in 2017/18] respectively for $1,615,000 and $3,300,000 projects).



Our expenditure is focussed towards the “must haves”, minimum levels of service and renewing our assets as they are used. While we may reprioritise spending, we would at best be reprioritising different items of renewal expenditure.

As it stands, our maintenance and renewal program has been informed by and prioritised in accordance with our own assessment of our infrastructure, external expert advice and our farmer consultations. Were we to reprioritise our works, we would not only be disregarding the professional advice and our community’s needs but we also would be shifting funds from one renewal project to another.

Safe and serviceable roads are a critical factor in any rural community, whether that be for their absolutely crucial economic role in transporting produce to and from the farm gate, or their social role in connecting our communities or ensuring our children can access care and education.

In recognition of the importance of road and related infrastructure to our communities our asset renewal has always aimed, though not always successfully, at renewing 100% of assets that reach the intervention level. The intervention levels are set out in our Road Management Plan (Appendix 10) which was developed in consultation with our community over a period of time. We refer again to our farmer consultations which have ensured that our Plan is not just based in a theoretical assessment of our assets but in a ground-truthed identification of our community’s needs. The condition of Council’s assets is monitored both internally (by staff) and externally (by contracted experts) to ensure any assets requiring renewal are actioned as soon as practical.

While our aim has been to renew 100% of our road infrastructure assets at intervention level, we have at times fallen short. Our most recent report, prepared by Tails Consultants in April 2017, found “that over 66% of the sealed network has a moderate or worse level of oxidisation which suggests that surface integrity will be compromised in the coming years. This will in turn have a detrimental effect on the life of the sealed pavement requiring costly rehabilitation.”

While these roads are currently in a serviceable condition, the resurfacing backlog will have to be addressed to ensure it does not increase further.

If reprioritising would only shift expenditure from one renewal project to another, the only other option would be to reduce the level of asset renewal expenditure as a whole. As our Long Term Financial Plan projections show, we are already not able to renew all our assets at the rate they are consumed.

A further reduction in our asset renewal expenditure would result in a deterioration of road assets in particular that would be keenly felt by our residents. Our residents have raised the importance of the road network time and time again in our consultations, it is clear that such an outcome would be unacceptable to them.

Services

If reducing infrastructure maintenance and renewal is not an option, Council could also consider reducing services to accommodate the rate cap.

While we have considered the following areas for potential service reductions, we believe their impact on our community’s liveability and sustainability would be devastating.

Service area	Activity	Saving
Kindergartens	Cease Council contribution. Council has outsourced the provision of kindergarten programs to Wimmera Uniting Care. In doing this we have been able to significantly reduce our cost. Ceasing our contribution to the service will result in increased costs to families and likely reduced attendance at a time when our children are already significantly more at risk developmentally than the Victorian or Australian average (Australian Early Development Census, https://www.aedc.gov.au/data/data-explorer?id=62152).	$71,213
School Crossing Supervisors	Cease school crossing supervision. Council is in the fortunate position of only one supervised school crossing in the shire. However, the crossing in question is on the Western Highway, at a town entrance where drivers are only just reducing their speed and next to a level train crossing. The community would find the risks of Council ceasing this service intolerable. Council’s contribution may reduce giving the recent state budget announcement of the return of 50:50 funding – the state currently funds $4,848 of Council’s $19,630 direct service cost).	$14,782
Swimming pools	Reduce hours per week or length of season.	$15,000

	We have contracted out the management of our four outdoor swimming pools. Pools currently open for 16 weeks from November to March, from 3.30pm to 6.30pm daily and 2pm to 7pm on weekends or during school holidays. A reduction in hours could potentially save $15,000 (based on a reduction by one week). However, a reduction would be contrary to the express wishes of our community, who have repeatedly requested an extension of hours and pool season.	
Community Satisfaction Survey	Cease participation in Community Satisfaction Survey. Some of the data provided by the survey is required by the state government for the Know Your Council Website. By not participating in the survey Council would not be able to meet the state government requirement to provide the data.	$15,000
Community & Business Action Grants	Cease Community Action Grants and Business Action Grants programs. Our grants program is, compared to other municipalities, very small. However, it has been important as a source of funding for the more than 250 community groups in our shire. As our maximum grant per project is $2,000, in many instances our grant has been used as seed funding to bring in other external funds.	$30,000 & $20,000
Aged & Disability Services	Cease provision of aged and disability services. Without a doubt one of our most significant services, discontinuing the provision of home care, personal care, respite, home maintenance and meals-on-wheels has the highest potential to create savings. However, it is worth noting that there is no other local provider of these services. Should Council discontinue this service, 200 of our residents and current clients would be left without support.	$100,000
Youth Council	Discontinue Youth Council Initially funded through a state government grant, our youth council has been an overwhelming success, not only in our increased engagement of young people but also in terms of our young people's achievement. Our community is justifiably proud of the Youth Council's success and would be devastated at its loss. No other organisation provides youth services of any shape or form within our shire.	$10,000
Memberships	Cease membership of Rural Councils Victoria ($3,000) or Rail Freight Alliance ($2,000). While not large in dollar terms, membership in the above groups greatly strengthens our advocacy on a regional level.	$5,000
Staff training	Reduce budget from $58,000 to $45,000. We have reduced our staff and Councillor training budget substantially in recent years. The majority of training we continue to undertake is mandatory (first aid for our community carers for example) or OHS related (manual handling). Considering we have 87 EFT, our training budget is already quite small. Any further reduction may also impact negatively on our ability to retain staff.	$13,000

As previously described, the service levels available to our community are already at the minimum level. Any further reductions will have a significant impact on our community and in many instances leave our community without any access to these services.

7. Consistent with Council's long term strategy and financial management policies

Council seeks a higher cap in order to continue to deliver key community services, maintain and renew infrastructure at an appropriate level, and achieve a balanced financial position. Our application for a higher cap is consistent with our draft 2017-2021 Council Plan and Strategic Resource Plan, our draft 2017/18 Annual Budget and our Long Term Financial Plan.

In combination with our other measures, continuing to seek savings and efficiencies as well as additional state and federal government funds, the higher rate cap will ensure we are capable of providing and funding our community's service and infrastructure needs.

The request to vary the rate cap is in keeping with the principles of sound financial management. It has regard to the financial risks faced by Council from a reduction in available income and considers alternative options like borrowing and reduction of asset maintenance and the risks inherent in either. The moderate size of the request provides a degree of stability in the level of rates burden felt by our community, and it supports the sustainability of services and infrastructure for future generations.

Council appreciates the Essential Services Commission's consideration of this request.

Yours faithfully,

Greg Wood
Chief Executive Officer

8. Appendices

Appendix	Description
1	Baseline financial statements
2	2015–16 Annual Report
3	2016–17 Annual Budget
4	Draft 2017–18 Budget financial statements
5	Draft Council Plan 2017-2021 & Strategic Resource Plan
6	Long Term Financial Plan financial statements 6.1 at 2% average rate cap 6.2 at 4% higher rate cap
7	Victorian Auditor General - 2015–16 local government audits
8	Community Engagement Framework
9	Borrowing Policy
10	Draft Road Management Plan
11	Minutes of Hindmarsh Shire Council Ordinary Meeting on 3 May 2017

Appendix 7 Victorian Auditor General - 2015–16 local government audits

Financial sustainability risk indicators:

Indicator	Formula	Description
Net result (%)	Net result / Total revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. The net result and total revenue are obtained from the comprehensive operating statement.
Liquidity (ratio)	Current assets / Current liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means there are more cash and liquid assets than short-term liabilities.
Internal financing (%)	Net operating cash flow / Net capital expenditure	This measures the ability of an entity to finance capital works from generated cash flow. The higher the percentage, the greater the ability for the entity to finance capital works from their own funds. Net operating cash flow and net capital expenditure are obtained from the cash flow statement.
Indebtedness (%)	Non-current liabilities / own-sourced revenue	Comparison of non-current liabilities (mainly comprising borrowings) to own-sourced revenue. The higher the percentage, the less the entity is able to cover non-current liabilities from the revenues the entity generates itself. Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.
Capital replacement (ratio)	Cash outflows for property, plant and equipment / Depreciation	Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for infrastructure are taken from the cash flow statement. Depreciation is taken from the comprehensive operating statement.
Renewal gap (ratio)	Renewal and upgrade expenditure/depreciation	Comparison of the rate of spending on existing assets through renewing, restoring, and replacing existing assets with depreciation. Ratios higher than 1:1 indicate that spending on existing assets is faster than the depreciation rate. Similar to the investment gap, this is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option. Renewal and upgrade expenditure are taken from the statement of capital works. Depreciation is taken from the comprehensive operating statement.

VGAO combines these indicators with the following risk criteria:

Risk	Net Result	Liquidity	Internal Financing	Indebtedness	Capital Replacement	Renewal Gap
High	**Less than negative 10%** Insufficient revenue is being generated to fund operations and asset renewal.	**Less than 0.75** Immediate sustainability issues with insufficient current assets to cover liabilities	**Less than 75%** Immediate sustainability issues with insufficient current assets to cover liabilities	**More than 60%** Potentially long-term concern over ability to repay debt levels from own-source revenue.	**Less than 1.0** Spending on capital works has not kept pace with consumption of assets.	**Less than 0.5** Spending on existing assets has not kept pace with consumption of these assets.
Medium	**Negative 10%–0%** A risk of long-term run down to cash reserves and inability to fund asset renewals.	**0.75–1.0** Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	**75–100%** May not be generating sufficient cash from operations to fund new assets.	**40–60%** Some concern over the ability to repay debt from own-source revenue.	**1.0–1.5** May indicate spending on asset renewal is insufficient.	**0.5–1.0** May indicate insufficient spending on renewal of existing assets.
Low	**More than 0%** Generating surpluses consistently	**More than 1.0** No immediate issues with repaying short-term liabilities as they fall due.	**More than 100%** Generating enough cash from operations to fund new assets.	**40% or less** No concern over the ability to repay debt from own-source revenue.	**More than 1.5** Low risk of insufficient spending on asset renewal.	**More than 1.0** Low risk of insufficient spending on asset base.

The table below summarises the financial sustainability risk ratings for the sector at 30 June 2016 based on the council cohorts. The financial sustainability risk indicators are calculated using the financial transactions and balances of each council's audited financial report.

Financial sustainability risk indicators for the local government sector at 30 June 2016:

Indicator		Average across councils for year ended 30 June 2016					
		All councils	Metro	Interface	Regional	Large	Small
Net result	per cent	**11.4**	**13.7**	**29.0**	**9.4**	**4.9**	**–0.1**
Liquidity	ratio	**2.4**	**2.2**	**2.9**	**2.1**	**2.2**	**2.7**
Internal financing	per cent	**138.0**	**211.7**	**171.6**	**111.7**	**101.8**	**93.2**
Indebtedness	per cent	**26.1**	**16.3**	**27.6**	**36.2**	**30.3**	**20.2**
Capital replacement	ratio	**1.5**	**1.6**	**1.6**	**1.5**	**1.3**	**1.2**
Renewal gap	ratio	**1.0**	**1.1**	**0.9**	**0.9**	**1.0**	**1.0**

Note: Yellow result = medium risk assessment; green result = low risk assessment.

Financial sustainability risk indicators compiled for small rural councils:

Small shire councils	Net result	Liquidity	Internal financ ing	Indebted ness	capital replace ment	renewal gap
Alpine Shire Council	-0.76%	2.31	87%	22.62%	1.40	1.21
Ararat Rural City Council	-0.41%	3.84	91%	12.51%	1.07	0.79
Benalla Rural City Council	0.76%	1.20	98%	62.03%	0.95	0.71
Borough of Queenscliff	1.71%	2.80	56%	78.00%	1.96	1.64
Buloke Shire Council	-0.38%	2.49	139%	60.45%	0.89	0.74
Central Goldfields Shire Council	1.86%	1.52	125%	25.69%	0.99	0.83
Gannawarra Shire Council	2.58%	2.36	65%	12.24%	1.73	1.15
Hepburn Shire Council	15.77%	3.20	91%	13.66%	1.53	1.46
Hindmarsh Shire Council	-3.57%	2.88	80%	2.30%	1.14	0.96
Indigo Shire Council	-6.90%	1.29	85%	38.01%	1.31	1.17
Loddon Shire Council	-1.25%	6.41	95%	17.73%	1.18	0.51
Mansfield Shire Council	8.83%	1.63	91%	24.14%	1.19	0.96
Murrindindi Shire Council	2.07%	3.90	115%	30.79%	1.03	0.62
Northern Grampians Shire Council	-14.44%	2.12	96%	28.80%	0.87	0.75
Pyrenees Shire Council	-11.03%	1.97	87%	1.59%	0.99	0.87
Strathbogie Shire Council	-1.22%	2.04	99%	14.01%	1.43	1.35
Towong Shire Council	10.63%	5.61	93%	7.43%	1.63	1.00
West Wimmera Shire Council	-2.76%	3.21	99%	3.86%	1.02	0.96
Yarriambiack Shire Council	-2.44%	0.89	80%	4.67%	1.33	1.29
Average	-0.05%	2.72	93%	20.17%	1.25	1.00

The full audit report is available from http://www.audit.vic.gov.au/publications/20161124-LG-2015-16/20161124-LG-2015-16.html.

9.3 ESSENTIAL SERVICES COMMISSION – APPLICATION FOR A RATE CAP VARIATION

Responsible Officer: Director Corporate and Community Services
Attachment Number: 6 - 10

Introduction:
This report proposes for Council to proceed with an application to the Essential Services Commission (ESC) to vary the rate cap set by the Victorian Government by an additional 2%, resulting in a total increase in general rates and municipal charge in the 2017/18 Annual Budget of 4%.

Discussion:
The Victorian Government's Fair Go Rates System (FGRS) came into effect on 1 July 2016. The FGRS limits the maximum increase in councils' average rates. The term "average rates" refers to the rates paid by the national average ratepayer. The amount is calculated by dividing total revenue from general rates and municipal charges, by the total number of rateable properties in the municipality.

Each year the Minister for Local Government (the Minister) sets the average rate cap for the following financial year by general Order.

A council may apply to the Essential Services Commission (the Commission) for a higher cap. If the Commission is satisfied that a higher cap is appropriate for the council, it sets a higher cap by special Order.

A council must comply with any general Order or special Order that applies to it. To comply, the capped average rate must not exceed the base average rate by more than the average rate cap or higher cap.

On 19 December 2016, the Minister for Local Government announced a rate cap of 2% for the 2017/18 financial year. Different from the previous year which allowed only applications seeking a variation of the rate cap for one financial year, for 2017/18, councils can seek a higher cap for up to four years.

For the 2016/17 financial year, ten councils sought a variation above the rate cap of 2.5%, one later withdrew, and six councils were successful with higher rate caps ranging from 3.05% to 6.34% (0.55% to 3.84% above the set rate cap of 2.5%).

The six councils that had a higher cap approved by the Commission and their respective higher caps were:
- Buloke: 3.05%
- Horsham: 3.50%
- Moorabool: 3.50%
- Murrindindi: 4.30%
- Pyrenees: 3.83%
- Towong: 6.34%.

Council was required to notify the ESC of Council's intention to apply for a higher rate cap for the 2017/18 financial year by 31 January 2017. At its meeting on 21 December 2016, Council resolved to notify the ESC that it intended to apply for a higher rate cap and submitted its notification accordingly.

The key dates and timelines for the operation of the Fair Go Rates System for the 2017/18 rating year are detailed in the table below:

Stage of FGRS Process	Timeframe
Minister announces cap(s)	By 31 December 2016
A council seeking approval for a higher cap notifies the ESC	By 31 January 2017
Council applies for a higher cap, submits Budget Baseline Information	1 February – 31 May 2017
ESC assesses council applications	February – July 2017
ESC notifies councils of decisions	Within 2 months of receipt of application
Councils formally adopt budget	August 2017
All councils submit Basic Annual Baseline Information	31 October 2017
ESC publishes Compliance Report	November/December 2017

In accordance with the Section 185E(3) of the *Local Government Act 1989*, in its application for a higher cap, Council must specify:

(a) a proposed ***higher cap*** *for each specified financial year; and*
(b) the ***reasons*** *for which the Council seeks the higher cap; and*
(c) how the ***views of ratepayers and the community*** *have been taken into account in proposing the higher cap; and*
(d) how the higher cap is an efficient use of Council resources and represents ***value for money****; and*
(e) whether consideration has been given to ***reprioritising proposed expenditures and alternative funding options*** *and why those options are not adequate; and*
(f) that the assumptions and proposals in the application are consistent with the Council's ***long term strategy and financial management policies*** *set out in the Council's planning documents and annual budget.*

Council has a well-developed, robust Long Term Financial Plan (LTFP) which was assessed for the validity of its underlying assumptions and sound forward planning by Council's internal auditor Phil Delahunty from RSD Chartered Accountants in 2014. At the time, the LTFP projected rates increases of 6% in 2015/16 and 2016/17, 5% in 2017/18, 2018/19 and 2019/20 and reducing to 4% from 2020/21, showing Council's intent to minimise rate increases in the long term. The LTFP recognised that, in the absence of other revenue streams, Council required this level of rate income to remain sustainable and continue to provide the services and maintenance to infrastructure to current standards unless alternative funding can be sourced.

Upon the introduction of the Fair Go Rates System, Council adjusted its LTFP to reflect rate increases of only 2.5% (based on the cap set in December 2015). In recognition of its funding needs, Council noted in an introductory comment to the financial statements contained in its 2016/17 Annual Budget:

"The following Financial Statements project expenditure based on Council's long term service, asset and financial planning. The deficits projected for the years 2017/18 onwards are a

reflection of the introduction of rates capping combined with a reduction in state and federal government funding.

Council's medium to long term planning has been based on maintenance of service levels and a continued effort to keep up with the need for renewal of our ageing infrastructure. While the financial statements paint a realistic picture of our service and infrastructure needs, they also reflect that the current financial environment will not allow us to meet these needs into the medium to distant future without additional revenue and funding sources.

If such additional income does not become available, service levels will have to be reviewed to maintain a financially sustainable future."

Council officers are currently preparing the draft budget for the 2017/18 financial year. With no significant changes to Council's business model and the financial outcomes modelled in Council's Long Term Financial Plan, Council will need to apply for a higher rate above the 2% cap set by the Minister for Local Government to meet its renewal targets and deliver on the farmer consultation and strategic planning undertaken in the last couple of years. Financial statements detailing both a 2% and 4% rate increase are attached (Attachment 7,8). Based on Council's LTFP, 10 year projected income and cash flow statements for both rates increases are also attached (Attachment 9, 10).

Council has engaged with its community in eight Community Conversations held across the Shire. Meetings at Antwerp, Rainbow, Broughton, Woorak, Winiam, Jeparit, Nhill and Dimboola were attended by 97 residents.
Feedback forms allowed attendees to comment on a proposed 2% variation of the rate cap. Of the 27 surveys returned, 18 or 66.7% voted in favour of a variation to the rate cap, one or 3.7% voted against, and eight or 29.6% did not express a preference either way.

Comments included:
- *Y - Query spending at kindergarten and childcare centre as a parent a few years ago I've only since seen a reduction in services but an increase in costs.*
- *Y - However better efficiencies must be accomplished.*
- *N - Tourist offices need looking at.*
- *It's not that simple. People don't want to pay more if they don't see efficiency. I'm happy to pay more to go towards roads if I don't perceive the council to be paying big money for dead weight.*

Feedback also raised the importance of road maintenance, tree trimming, Albacutya Bridge, business grants, Hindmarsh Youth Council, community plans, tourism, corella control and advocacy for television and mobile phone reception.

Given Council's financial position detailed in the attached statements and based on the community consultation process undertaken, it is proposed that Council submit an application to the Essential Services Commission seeking a higher rate cap as follows:
- A single-year variation of 2% above the rate cap set by the Minister for Local Government;
- Reasons for applying:
  - to enable Council to continue to provide day-to-day community services (such as kindergartens, libraries, swimming pools, maternal and child health etc.) and infrastructure maintenance and renewal at the levels required by its residents and ratepayers and;
  - to accommodate environmental factors that are outside of Council's control:

- large geographic area (7,500 sq. kms)
- significant amount of infrastructure (3,177km of roads, six bridges and 27km of pipes/drains)
- small, socio-economically disadvantaged, dispersed population (the Shire's estimated residential population at 30 June 2011 was 5,798, the second lowest population density in the State of Victoria at less than one person per square kilometre. At the other end of the spectrum, the City of Port Phillip has the highest population density in Victoria with 4,632/per square kilometre. If Port Phillip had Hindmarsh Shire's density, it would have a population of just 16 people. If Hindmarsh Shire had Port Phillip's density, it would have a population of 35 million.)
- low rate base ($6.5 million).

Options:
Council can choose to proceed with the proposed rates cap variation, choose a different percentage or multi-years for the variation or resolve not to proceed.

Link to Council Plan:
Council Plan 2013-2017:
Strategy 4.1: Long-term financial sustainability

The proposed higher rates cap will enable the delivery of initiatives from the draft 2017-2021 Council Plan, in particular the continuation of initiatives from farmer and community consultations.

Financial Implications:
The proposed higher rates cap will provide an additional $144,000 in the 2017/18 Budget.

Conflict of Interest:
Under section 80C of the LGA officers providing advice to Council must disclose any interests, including the type of interest.

Author and Officer Responsible– Anne Champness, Director Corporate & Community Services
In providing this advice as the Author and Officer Responsible, I have no disclosable interests in this report.

Risk Management Implications:
The application to vary the rates cap carries reputational as well as financial risk - .

Communications Strategy
The ESC will be notified of Council's decision. Further community engagement will occur in the course of the preparation of the 2017/18 Budget under section 129 LGA, once the ESC has made a decision on the variation of the rate cap.

RECOMMENDATION:

That
1. ***Council approves an application to the Essential Services Commission for a higher rate cap of 4% for 2017/2018; and***
2. ***Council considers the implementation of a higher cap, if and as approved by the Commission, as part of its 2017/2018 Budget process.***

3. ***Council authorises the Chief Executive Officer to finalise the application for a rate variation.***

MOVED: CRS R. Gersch/T. Schneider

That
1. ***Council approves an application to the Essential Services Commission for a higher rate cap of 4% for 2017/2018; and***
2. ***Council considers the implementation of a higher cap, if and as approved by the Commission, as part of its 2017/2018 Budget process.***
3. ***Council authorises the Chief Executive Officer to finalise the application for a rate variation.***

CARRIED

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10. SPECIAL COMMITTEES

10.1 RAINBOW TOWN COMMITTEE

Responsible Officer: Director Corporate and Community Services
Attachment: 11

Introduction:
The Rainbow Town Committee held its Meeting on 27 March 2017. The purpose of this report is to note the minutes from this meeting. A copy of the minutes is included as an attachment for the information of Council.

RECOMMENDATION:

That Council note the minutes of the Rainbow Town Committee Meeting on 27 March 2017.

MOVED: CRS R. Lowe/T. Schneider

That Council note the minutes of the Rainbow Town Committee Meeting on 27 March 2017.

CARRIED
Attachment: 11
