



# CITY OF CASEY

Decision on application for a higher cap for 2016-17

May 2016



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## 1. OUR DECISION

The Fair Go Rates System (FGRS), established in the *Local Government Act 1989* (the Act), requires local councils to limit their average annual rate increases to a rate cap, determined annually by the Minister for Local Government (the Minister).<sup>1</sup> For the 2016-17 rating year, the cap has been set at 2.5 per cent.

Councils wishing to increase their average annual rates by more than 2.5 per cent in 2016-17 must first obtain approval from the Essential Services Commission (the Commission). We are responsible for approving, rejecting or approving in part the higher cap sought by a council. This paper outlines our decision in response to an application by the City of Casey (Casey or Council) for a higher cap of 3.47 per cent (which includes the Minister's rate cap of 2.5 per cent) to apply in 2016-17.

In assessing applications, we are required to have regard to the six legislative matters<sup>2</sup> and the statutory objectives<sup>3</sup> of the FGRS (box 1).

The six legislative matters are:

- the proposed higher cap for each specified financial year
- the reason for which the council seeks the higher cap
- how the views of ratepayers and the community have been taken into account in proposing the higher cap
- how the higher cap is an efficient use of council resources and represents value for money
- whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate and
- 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.

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<sup>1</sup> Sections 185B and 185C of the *Local Government Act* define rates for the purposes of the cap.

<sup>2</sup> Section 185E of the *Local Government Act*.

<sup>3</sup> Section 10E(7) of the *Essential Services Commission Act 2001* and section 185A of the *Local Government Act*.

## **BOX 1      OBJECTIVES OF THE FAIR GO RATES SYSTEM**

- to promote the long-term interests of ratepayers and the community in relation to sustainable outcomes in the delivery of services and critical infrastructure and
- to ensure that a council has the financial capacity to perform its duties and functions and exercise its powers.

The Act also requires the Commission to have regard to a council's record of compliance with previous years' caps.<sup>4</sup> However, as this is the first year of the FGRS, this has not been a relevant consideration when assessing applications for higher caps in the 2016-17 rating year.

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<sup>4</sup> Section 185E(6)(c) of the Local Government Act.

## **BOX 2      COMMISSION'S DECISION ON CITY OF CASEY'S APPLICATION**

Casey has applied for a higher cap of 3.47 per cent, that is, 0.97 per cent higher than the Minister's rate cap for 2016-17.

The Commission has assessed Casey's application, and decided not to approve its proposed higher cap of 3.47 per cent for 2016-17. Casey will be required to keep its average rate increase for 2016-17 within the 2.5 per cent cap set by the Minister.

Casey's application has not demonstrated the need for an ongoing rate increase above the cap in 2016-17. Casey's overall financial position is strong with a forecast adjusted underlying surplus in the order of \$33.9 million (without the proposed higher cap). Casey has also been granted additional funding of \$2.5 million as part of the Interface Growth Fund. This frees up funds equivalent to \$2.5 million which could be used to fund other capital projects, possibly including those made the subject of the higher cap application. Casey will have the financial capacity to meet its duties and functions without the proposed higher cap, including its planned capital works program in 2016-17.

## 2. WHAT DID THE COUNCIL APPLY FOR AND WHY?

Casey sought a 3.47 per cent rate cap in 2016-17 (inclusive of the Minister's rate cap of 2.5 per cent). Casey estimated that this would result in additional revenue of \$1.6 million.

Casey submitted that it would use the additional \$1.6 million to finance two capital projects (table 1).

**TABLE 1 CAPITAL PROJECTS TO BE FUNDED BY THE ADDITIONAL FUNDS FROM A HIGHER CAP**

Capital project	Capital expenditure (\$m)			Total
	2016-17	2017-18	2018-19	
Hunt Club Football and Cricket Recreation Facility	1.59	1.08		2.67
Autumn Place Family and Community Centre		0.60	2.80	3.40
Total project cost	1.59	1.68	2.80	6.07

Data source: Casey's 2016-21 Capital Works Program as adopted by Council on 15 March 2016.

The additional \$1.6 million will be permanently included in the rate base. Casey indicated that this ongoing additional revenue would also help fund two other projects beyond those that are the subject of the application, namely, the Glenelg Recreation Facility and soccer fields at Casey Fields over the next five years.<sup>5</sup>

A copy of Casey's application and its response to our request for information (RFI) is available on our website ([www.esc.vic.gov.au](http://www.esc.vic.gov.au)). Appendix A shows the communications between the Commission and Casey during the assessment period.

<sup>5</sup> City of Casey 2016, *Higher Cap Application*, March, p.23.



### 3. HOW DID WE REACH OUR DECISION?

Table 2 summarises our observations on each of the relevant matters specified in Casey's application.

**TABLE 2 LEGISLATIVE MATTER SUMMARY**

Legislative matter	Summary
185E(3)(a) — proposed higher cap	The Commission verified that the higher cap was appropriately calculated.
185E(3)(b) — reason(s) for which the council seeks the higher cap	<p>Council provided information on the two projects including the relevant strategic and development plans; policies; internal processes for prioritising capital works; business cases and project nomination templates.</p> <p>Casey proposed that the additional higher cap be permanently included in the rate base despite the two projects being completed by 2018-19.<sup>a</sup> Casey indicated that, going forward, it would use the additional \$1.6 million to fund other capital works namely the Glenelg Recreation Facility and soccer fields at Casey Fields. In addition, Casey indicated that it will apply for a higher cap in the future years.<sup>b</sup></p> <p>Casey has not demonstrated the long-term funding need beyond the two projects that need to be funded in 2016-17 to 2018-19. A fuller discussion of this matter is in section 3.1.</p>
185E(3)(c) — how the views of ratepayers and the community have been taken into account in proposing the higher cap	<p>Casey provided information and documents to show it has undertaken engagement with its community about services and the proposed higher cap.</p> <p>In October 2015, Casey held a forum about services and asked participants whether they want to spend more, the same or less on a group of services. Casey informed the Commission that “the Community value Council services and the majority wanted levels of services to remain the same, or increase”.<sup>c</sup> The Commission asked Casey if the financial trade-offs were explained to participants during the forum. Casey clarified that it had explained to the participants the financial challenges Casey is facing but</p> <p><i>‘as there was limited timeframe to undertake community engagement, we were unable to seek further feedback from the group on specific financial variations based on if rate revenue is capped’.</i><sup>d</sup></p> <p>In December 2015, Casey held a forum and conducted an online survey about a higher cap. Casey asked forum and online survey participants to consider and vote on three rating options:</p> <p><b>option 1:</b> 1 per cent (compounding) increase above the cap each year (4 capital projects will be implemented including the Hunt Club Football and Cricket Recreation Facility and Autumn Place and Community Centre)</p> <p><b>option 2:</b> one-off 1 per cent increase above the cap in 2016-17 (proposed Hunt Club Football and Cricket Recreation Facility and Autumn Place and Community Centre will be implemented)</p>

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**TABLE 2 CONTINUED**

Legislative matter	Summary
<p>185E(3)(c) (continued)</p>	<p><b>option 3:</b> stay within the rate cap (all 4 projects will not be implemented)</p> <p>There were a number of questions raised by participants about how Casey had prioritised its capital works program and whether Council had considered other alternative funding options.</p> <p>Casey decided to apply for a higher cap despite forum and online survey participants' "preference for Council to deliver a rate rise in accordance with the Rate Cap...".<sup>e</sup></p> <p>Casey explained to the Commission that there was insufficient time to return and engage with the community about its capital works program given the legislative timing of the application for a higher cap.<sup>f</sup></p> <p>Casey has informed the forum and online participants of its decision through an email in February 2016 saying:</p> <p><i>"Council has balanced the views gathered from the consultation in its decision making and the financial growth pressures facing Casey. We acknowledge this may be an unpopular decision but Council has to act responsibly in the best interests of all ratepayers to protect the future of the city."</i><sup>g</sup></p> <p>Casey also reported back to the community on the outcomes of both forums by publishing the full reports on its website.</p>
<p>185E(3)(d) — how the higher cap is an efficient use of council resources and represents value for money</p>	<p>Casey explained clearly how it applies the Best Value Principles across its service planning processes, to operational and strategic activities and services it provides.</p> <p>Casey contended that its proposed higher cap is an efficient use of money. It provided information about how the two projects were assessed and prioritised into the capital works program. Casey submitted the business cases and project nomination templates for the two identified projects.<sup>h</sup></p> <p>Casey did not provide the tender documents for the two projects because projects under the capital works program only get tendered after the adoption of the budget for the year. The Commission notes that Casey has a Tendering and Contracting Program and based on the thresholds Casey will have to tender the proposed two projects.</p> <p>Casey submitted data showing the historical trend in Council's building costs per square metre, which reportedly was the basis of the cost estimate of the two projects. The Commission was not in a position to verify the accuracy of that information.</p>

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TABLE 2 CONTINUED

Legislative matter	Summary
<p>185E(3)(e) — whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate</p>	<p>Casey provided additional information which explains why further borrowings, use of its current financial assets and funds from the Interface Growth Fund were not proposed to be used to finance the two projects.</p> <p><b>Borrowings.</b> Casey would not use borrowings to fund the two projects because further borrowings after its Bunjil Place project would lead to Casey's loans and borrowings as a percentage of rates revenue exceeding 40 per cent (a level considered 'medium risk' by the Victorian Auditor-General's Office).</p> <p>Council's policy is to borrow funds for significant one-off projects (like the Bunjil Place project) and it does not support the use of borrowings for ongoing upfront capital costs such as the two proposed projects that would be enduring for the next 25 years. In the December 2015 forum, there was no support for borrowing as an alternative option according to Casey.</p> <p>Casey also noted that its debt policy is contained as a section in its Strategic Resource Plan (SRP), which is released annually together with the budget for public consultation.</p> <p><b>Current financial assets and working capital.</b> Casey informed the Commission that while it has substantial financial assets, the untied or uncommitted funding held by Casey for the next three years is minimal and in the order of \$0.35 million.<sup>i</sup></p> <p>Casey also explained that it uses 'a rates statement, which is a hybrid operating and cash-flow statement to work out its rates requirements, and ensure that all of its commitments and budget allocation decisions are fully funded, either by rates or other funding sources'.<sup>j</sup></p> <p>Casey provided a summary of the commitments against its financial assets and working capital. Its analysis shows that its adjusted working capital situation will be slightly negative even with an average of 3.8 per cent higher cap each year (Casey's SRP is based on this higher cap scenario).<sup>k</sup></p> <p><b>Interface Growth Fund.</b> Casey explained that the proposed two projects did not meet the criteria for the Interface Growth Fund (IGF).</p> <p>In response to Commission's request for clarification, Casey confirmed that it was recently granted \$2.5 million from the State's IGF for its Selandra project which is scheduled for 2016-18 implementation.<sup>l</sup> This frees up equivalent rates revenue of \$2.5 million for Casey, broken down into \$1.6 million and \$0.82 million for 2016-17 and 2017-18, respectively. (The Commission observed that the \$2.5 million IGF for the Selandra project was not reflected yet in the 2016-21 Capital Works Program adopted by Casey on 15 March 2016).<sup>m</sup></p> <p>Casey informed the Commission in April 2016 that the available \$2.5 million rates revenue will be used to fund another project called Bradman Drive Reserve (which the Commission observed is scheduled for implementation in 2017-19 based on its 2016-21 Capital Works Program).<sup>n</sup></p> <p>It is unclear to the Commission how Casey has prioritised Bradman Drive Reserve over the proposed two projects for which it is seeking a higher cap. This is discussed in more detail in section 3.1.</p>

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**TABLE 2 CONTINUED**

Legislative matter	Summary
185E(3)(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	<p>Casey has provided information to demonstrate that the two projects are consistent with its Council Plan, Strategic Resource Plan (SRP), Capital Works Program and Asset Management Plan.</p> <p>Casey's 2016-26 Long-Term Financial Plan (LTFP) is based on the assumption that it will increase its average rates per assessment by 3.8 per cent annually (on average). Due to insufficient time, Casey explained that it would not be able to provide its LTFP based on a no higher cap scenario. However, Casey was able to provide its 2016-20 SRP for 'with' and 'without' higher cap scenarios which shows the incremental financial impacts of the proposed 0.97 per cent addition to the Minister's cap. Results showed that Casey will remain in a strong operating position even without the higher cap.<sup>o</sup> This is discussed in more detail in section 3.1.</p>

<sup>a</sup> City of Casey 2016, *Higher Cap Application*, March, p.23. <sup>b</sup> City of Casey 2016, *Strategic Resource Plan 2016-2020*, March, section 1. <sup>c</sup> City of Casey 2016, *Response to Request for Information*, April, no.13, p.7. <sup>d</sup> City of Casey 2016, *Response to Request for Information follow up questions*, April, no.1, p.2. <sup>e</sup> City of Casey 2016, *Higher Cap Application*, March, p.12. <sup>f</sup> During the 24 March 2016 meeting between Casey and the Commission. <sup>g</sup> City of Casey 2016, *Response to Request for Information — Attachment 14a*, April. <sup>h</sup> The business cases show the costs and benefits of the projects including considerations of other options. <sup>i</sup> City of Casey 2016, *Response to Request for Information follow up questions*, April, no.6, p.3. <sup>j</sup> City of Casey 2016, *Response to Request for Information*, April, no.23, p.11. <sup>k</sup> City of Casey 2016, *Response to Request for Information*, April, attachment 23. <sup>l</sup> Under the 2016-21 Capital Works Program, Selandra project will be funded as follows: \$1.67 million rates revenue and \$1.058 million developer contributions (for 2016-17), and \$2.01 million rates revenue (for 2017-18). With the \$2.5 million IGF, the new funding allocation for Selandra project changed to: \$2.5 million IGF and \$1.058 million developer contributions (2016-17) and \$1.19 million rates revenue (for 2017-18). Source: *Response to Essential Services Commission RFI follow up questions*, April, table 3, p.2. <sup>m</sup> City of Casey 2016, *Response to Request for Information*, April, attachment 30b. <sup>n</sup> City of Casey 2016, *Response to Request for Information*, April, attachment 30b. Casey explained that “the Bradman Drive project is currently listed as New Unnamed Reserve #2 (Alarah Boulevard) or CWID No. 2010 in the draft 2016-21 Capital Works Program” (Source: *Response to Request for Information follow up questions*, April, no.10, p.5. <sup>o</sup> City of Casey 2016, *Response to Request for Information*, April, attachment 32a.

### 3.1 ASSESSMENT

As required under the FGRS, we have examined each of the six legislative matters addressed in Casey’s application. The legislation also requires the Commission to (i) promote the long-term interests of ratepayers and the community in relation to sustainable outcomes in the delivery of services and critical infrastructure and (ii) ensure that a Council has the financial capacity to perform its duties and functions and exercise its powers.

Taking into account all of the relevant factors above, the Commission formed the view that the higher cap is not appropriate for the following reasons:

- Casey's financial position is strong and will not be unduly compromised without the higher cap. Casey has the financial capacity to deliver the required services and its \$150.6 million capital works program scheduled for 2016-17 (including the Hunt Club Football and Cricket Recreation Facility) without a rate increase beyond the cap set by the Minister.
- A further \$2.5 million will be received by Casey as part of the Interface Growth Fund (which was not included in the 2016-21 Capital Works Program adopted by Casey on 15 March 2016), which will free up funds that can be used to fund other capital projects, possibly including those made the subject of the higher cap application. Casey has not explained why it is in the communities' long-term interests that these freed-up funds should be allocated to the Bradman Drive Reserve (scheduled for implementation in 2017 under its 2016-21 Capital Works Program) rather than being allocated to delivering a project earmarked for delivery in 2016 (the Hunt Club Football and Cricket Recreation Facility). In other words, it is not clear why Casey has sought to bring forward a future project instead of complying with its own capital works program and the FGRS rate cap set by the Minister.
- Casey has historically underspent on its capital expenditure budget by an average of \$14 million per year, over the last five years. This leads the Commission to conclude that it is reasonable to expect there will be room for Casey to manage its overall capital works program within the 2016-17 cap set by the Minister.
- It is not possible for the Commission to conclude that it is in the long-term interests of ratepayers to pay higher rates for 2016-17 and on an ongoing basis when Casey has not clearly established a long-term funding need in its application.

These matters are discussed in more detail below.

## STRONG FINANCIAL POSITION FOR 2016-17

We have examined the underlying finances of Casey and consider that it has the capacity (without the higher cap) to undertake the projects identified in its application, should it wish, without adversely affecting its financial capacity to meet its duties and functions. Table 3 compares Casey's budgeted total income, expenses and adjusted underlying surplus for 2016-17. Casey will have adjusted underlying surplus in the order of \$35.5 million 'with' its proposed higher cap and \$33.9 million 'without' the higher cap.<sup>6</sup>

**TABLE 3 INCOME, EXPENSES AND ADJUSTED UNDERLYING SURPLUS, 2016-17**

	'With' the higher cap (\$m)	'Without' the higher cap (\$m)	Difference (\$m)
Income <sup>a</sup> (a)	350.1	348.5	1.6
Expenses <sup>b</sup> (b)	266.9	266.9	0
Surplus/(Deficit) (c)=(a)-(b)	83.2	81.6	1.6
Non-monetary contributions (d)	40.0	40.0	0
Non-recurrent revenue for capital works (e)	7.5	7.5	0
Contributions used to fund capital works <sup>c</sup> (f)	0.2	0.2	0
<b>Adjusted underlying surplus/(deficit) (g)=(c)-(d)-(e)-(f)</b>	<b>35.5</b>	<b>33.9</b>	<b>1.6</b>

<sup>a</sup> The \$1.6 million is the additional rates revenue to be realised from the proposed higher cap. <sup>b</sup> Same service levels and capital works program for 2016-17. <sup>c</sup>Based on information provided by Casey, its forecast cash contributions for 2016-17 are \$15.6 million, of which \$15.2 million are for capital works. The \$0.2 million used in table 3 reflects the forecast cash contributions identified by Casey, which will be used to fund capital works in 2016-17. Data source: Draft Budgeted Comprehensive Income Statement for the period 2016-21 and Casey emails to the Commission dated 24 and 25 May 2016.<sup>7</sup>

<sup>6</sup> Adjusted underlying result is based on the LGPRF definition (see Appendix B).

<sup>7</sup> City of Casey 2016, *Response to Request for Information*, April, attachments 4a (SRP Scenario 2b) and 32c (SRP Scenario 4b).

Similarly, Casey's forecast of the impacts on its Local Government Performance Reporting Framework (LGPRF) financial indicators of 'with' and 'without' higher cap (table 4) show that Casey will continue to operate with a positive adjusted underlying result in the short- to medium-term.

**TABLE 4 LOCAL GOVERNMENT PERFORMANCE REPORTING FRAMEWORK INDICATORS**

LGPRF indicator <sup>a</sup>	2014-15 (Actual)	2015-16 (Budget)	2016-17 (Forecast)	2017-18 (Forecast)	2018-19 (Forecast)
<b>Operating position<sup>b</sup></b>					
<b>Adjusted underlying result (%)</b>					
pre-FGRS	19.57	17.96			
'without' higher cap (a)			11.79	9.74	9.17
'with' higher cap (b)			12.27	10.25	9.71
Difference (b-a)			0.48	0.51	0.54
<b>Liquidity<sup>b</sup></b>					
<b>Working capital (%)</b>					
pre-FGRS	417.56	365.94			
'without' higher cap (a)			377.88	372.04	381.75
'with' higher cap (b)			380.46	377.23	389.82
Difference (b-a)			2.58	5.19	8.07
<b>Unrestricted cash (%)</b>					
pre-FGRS	269.65	259.54			
'without' higher cap (a)			281.41	282.31	290.41
'with' higher cap (b)			283.96	287.47	298.43
Difference (b-a)			2.55	5.16	8.02
<b>Obligations<sup>b</sup></b>					
<b>Loans and borrowings (%)</b>					
pre-FGRS	14.24	6.12			
'without' higher cap (a)			43.52	44.31	40.86
'with' higher cap (b)			43.17	43.96	40.54
Difference (b-a)			-0.35	-0.35	-0.32
<b>Loans and borrowing repayments (%)</b>					
pre-FGRS	2.06	7.58			
'without' higher cap (a)			2.06	3.96	4.52
'with' higher cap (b)			2.04	3.93	4.49
Difference (b-a)			-0.02	-0.03	-0.03

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**TABLE 4 (CONTINUED)**

LGPRF indicator <sup>a</sup> ,	2014-15 (Actual)	2015-16 (Budget)	2016-17 (Forecast)	2017-18 (Forecast)	2018-19 (Forecast)
<b>Obligations<sup>b</sup> (continued)</b>					
<b>Indebtedness (%)</b>					
pre-FGRS	30.89	19.44			
'without' higher cap (a)			44.39	44.39	41.69
'with' higher cap (b)			44.15	44.13	41.44
Difference (b-a)			-0.24	-0.26	-0.25
<b>Asset renewal (%)</b>					
pre-FGRS	58.95	79.67			
'without' higher cap (a)			90.96	83.59	83.45
'with' higher cap (b)			90.96	83.59	83.45
Difference (b-a)			0.00	0.00	0.00

**Note:** Under the Local Government Performance Reporting Framework (LGPRF), Councils are required to report annually on their performance against a number of financial and output measures. <sup>a</sup> Table only includes LGPRF indicators considered in making our decision. <sup>b</sup> See Appendix B for definitions of these indicators.

Data source: City of Casey 2016, *Response to request for further information*, April, Attachment 32a (scenarios 2B and 4B).

The adjusted underlying results remain above 11 per cent (for 2016-17) and 9 per cent (for 2017-19) under both scenarios. Deloitte Access Economics, in its advice to the Commission, noted that:

*'... the adjusted underlying result ratio as by far the most critical indicator of a council's performance'.*

*'...Deloitte Access Economics would recommend targeting achievement of a small underlying operating surplus (say of the order of 5% of operating revenue but possibly more or less depending on a local government's circumstances and outlook) over a break-even result to help offset risk and uncertainty. A high ongoing surplus may indicate that a council is over-charging current ratepayers relative to the cost of the services it provides'.*



*'Arguably Casey's projected underlying adjusted operating surplus with its preferred rating strategy is at the higher end of what may be reasonable'.<sup>8</sup>*

Results for the other LGPRF financial indicators also show that 'without' the higher cap:

- Casey will have more than adequate cash to pay its bills when they fall due as indicated by its high working capital and unrestricted cash indicators, which are above the (LGPRF) target bands of 120-200 per cent (working capital) and 50-100 per cent (unrestricted cash)
- Casey's debt obligations will only change slightly and
- Casey's renewal gap will not be affected because the renewal expenditure will remain the same under both scenarios.

In light of Casey's financial strength over the short- to medium term, and in the absence of a demonstrated long-term financial need in its application, and for the additional reasons outlined below, the Commission concludes that Casey has not yet demonstrated the need for an ongoing rate increase above the cap commencing in 2016-17.

#### **AVAILABLE \$2.5 MILLION OF RATES REVENUE**

Casey has developed a five year (2016-21) Capital Works Program, which was adopted by the Council on 15 March 2016. For 2016-17, Casey will need \$150.6 million to implement its planned capital works, including the proposed Hunt Club Football and Cricket Recreation Facility. If the proposed higher cap is not approved, Casey claims that it will not proceed with the Hunt Club Football and Cricket Recreation Facility in 2016-17 (and the Autumn Place Family and Community Centre in 2017-18). As a result, total capital works would decrease to \$149 million.

At the same time, we note that Casey has received additional funds of \$2.5 million from the IGF. This fund is tied to a higher priority project (Selandra) in Casey's Capital Works Program for 2016-17 that was to be funded within the cap. This external funding frees up an equivalent \$2.5 million out of its capital works budget (of \$150.6 million) which could be used to fund other capital projects, possibly including those made the

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<sup>8</sup> Deloitte Access Economics' advice provided to the Commission. In April 2016, the Commission engaged Deloitte Access Economics to assist the Commission in examining the underlying financial position of those councils that have applied for a higher cap.

subject of the higher cap application. However, Casey has indicated that it will use the freed up rates revenue from within the cap to fund the lower priority Bradman Drive Reserve (scheduled for implementation in 2017 under its 2016-21 Capital Works Program).

While it is completely within Casey's discretion to reallocate these funds to the lower priority project (Bradman), this could suggest that Casey's five year Capital Works Program is not an accurate reflection of its priorities. No explanation has been submitted as to why Casey would rather fund a lower priority project than avoid a rate cap increase. This leaves the Commission unclear about the status of Casey's five year Capital Works Program and whether that program can be relied upon as a basis for approving a higher cap that is consistent with the long-term interests of ratepayers and the community.

### **HISTORICAL CAPITAL WORKS UNDERSPEND**

Casey's capital expenditure budget has been underspent (actual versus budgeted) by an average of \$14 million per year over the last five years (with the budgeted Capital Works Program ranging from \$61 million to \$94 million). In that context, there is reason to expect there will be room for Casey to manage its overall capital works program within the 2016-17 cap set by the Minister.<sup>9</sup>

### **NEED DEMONSTRATED FOR A PERMANENT INCREASE TO THE RATE BASE?**

In order to justify a permanent increase to the rate base (as implied by Casey's application for a higher cap), Casey should demonstrate a long-term funding need.<sup>10</sup> This would be consistent with the long-term interests of ratepayers and the community for sustainable outcomes in services and critical infrastructure delivery.

In the current application, Casey has identified two specific projects with its capital requirements spreading over the next 2-3 years. Following that period, Casey has generally identified that there will be other worthwhile projects to take up the higher

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<sup>9</sup> The actual and budgeted capital spend were sourced from City of Casey's annual reports for the period 2010-11 to 2014-15 (Source: City of Casey 2016, *Response to Request for Information*, April, attachment 31.) Some of the reasons cited for the underspend are: delays in tendering, delivery, finalising project scope completing community engagement; complex geo-technical conditions; weather; site conditions and longer than expected tender preparation and evaluation.

<sup>10</sup> A situation in which a council's projected long-term operating revenue is less than the projected long-term operating expenditure it will need to perform its duties and functions, including some capacity to accommodate unforeseen future events.

revenues assumed in the rate base. Casey appears to be asking the Commission to accept this claim on face value. We are not prepared to do so.

As noted in the preceding section, we are unsure about Casey's own commitment to its capital program. Also, the engagement document submitted to the Commission by Casey showed that a number of questions were raised by participants about Casey's prioritisation of projects. We also received unsolicited submissions from ratepayers on that issue. We encourage Casey to engage with its community about services and infrastructure within the FGRS environment. The major financial trade-offs should be clearly explained to the community.

## APPENDIX A: SUMMARY OF COMMUNICATIONS WITH CASEY

Casey submitted its application for a higher cap on 21 March 2016. In response to its application the Commission sought additional information from Casey (table 5). Casey's application and its response to our request for further information can be found on our website.

**TABLE 5 COMMUNICATIONS BETWEEN CASEY AND THE COMMISSION**

Date	Nature of communication
21 March	Casey submitted its application
24 March	Casey and the Commission met to have a preliminary discussion about the application
30, 31 March	Casey and the Commission exchanged emails about Casey's assumed annual rates increases in the 2016-17 Strategic Resource Plan and 10 Year Long-term Financial Plan
3 April	Commission issued to Casey a request for information (RFI)
6 April	Casey acknowledged receipt of the RFI; requested for a Word version of the RFI and the table about average rates and charges per assessment; and sought some clarifications on the basis of the LGPRF indicators shown in the RFI
	There were further exchanges of emails between the Commission and Casey about the Commission's request for Casey to confirm the correctness of the historical data used by the Commission in the RFI
7 April	Casey and the Commission exchanged emails about the RFI, the Baseline Template and the basis of the LGPRF indicators included in the RFI
8 April	Commission responded to Casey's queries about the RFI
9, 12 April	Casey and Commission talked over the phone (and emailed later) to discuss Casey's questions about the Baseline Template
13 April	Casey submitted its response to the RFI and also provided some clarifications about Council Profile/Background information
19-20 April	Casey and the Commission exchanged emails about the amended Baseline Template; Commission also sent some follow-up questions related to Casey's response to the RFI
26 April	Casey responded to the Commission's 20 April request for some clarifications
3-23 May	Casey and the Commission exchanged emails re: confidential information which should not be published by the Commission; differences between revenue and expenditure data in the Budget Baseline and Comprehensive Income Statement
24 May	Casey and the Commission exchanged emails about Casey's forecast cash contributions for 2016-17
25 May	Casey and the Commission exchanged emails about further queries on Casey's cash contributions for 2016-17

## APPENDIX B: LGPRF INDICATOR DEFINITIONS

- a. **Adjusted underlying result** is adjusted underlying surplus (deficit) as a percentage of adjusted underlying revenue. A surplus or increasing surplus suggests an improvement in the operating position.
- Adjusted underlying revenue** is total income less non-recurrent capital grants used to fund capital expenditure, non-monetary asset contributions and other contributions to fund capital expenditure.
- Adjusted underlying surplus** is adjusted underlying revenue less total expenditure.
- b. **Working capital ratio** is current assets as a percentage of current liabilities. It indicates whether a council has sufficient working capital to pay bills as and when they fall due. High or increasing level of working capital suggests an improvement in liquidity.
- c. **Unrestricted cash indicator** is unrestricted cash as a percentage of current liabilities. It indicates whether a council has sufficient cash which is free of restrictions to pay bills as and when they fall due. High or increasing level of unrestricted cash suggests an improvement in liquidity.
- Unrestricted cash** is all cash and cash equivalents that are not tied to a particular use hence can be used for any purpose and is extremely liquid.
- d. **Loans and borrowings** is interest bearing loans and borrowings as a percentage of rate revenue. This indicator measures whether the level of interest bearing loans and borrowings is appropriate relative to the size and nature of a council's activities. Low or decreasing loans and borrowings suggests an improvement in the capacity to meet long- obligations.
- Rate revenue** is revenue from general rates, municipal charges, service rates and service charges.
- e. **Loans and borrowing repayments** is interest and principal repayments on interest bearing loans and borrowings as a percentage of rate revenue. This indicator measures whether the level of interest and principal repayments on interest bearing loans and borrowings is appropriate relative to the size and nature of a council's activities.

f. **Indebtedness** is non-current liabilities as a percentage of own source revenue. This indicates that the level of long-term liabilities is appropriate to the size and nature of a council's activities. Low or decreasing level of long-term liabilities suggests an improvement in the capacity to meet long-term obligations.

**Own source revenue** is adjusted underlying revenue excluding revenue which is not under the control of council (including government grants).

g. **Asset renewal** is asset renewal expenditure as a percentage of depreciation. This indicates whether assets are being renewed as planned. High or increasing level of planned asset renewal being met suggests an improvement in the capacity to meet long-term service obligations.

**Asset renewal expenditure** is expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability.