



MOORABOOL SHIRE COUNCIL

Decision on application for a higher cap for 2016-17

May 2016

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CONTENTS

1. OUR DECISION	1
2. WHAT DID THE COUNCIL APPLY FOR AND WHY?	4
3. HOW DID WE REACH OUR DECISION?	5
APPENDIX A: SUMMARY OF COMMUNICATIONS WITH MOORABOOL	15
APPENDIX B: LGPRF INDICATOR DEFINITIONS	16

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).¹ 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 Moorabool Shire Council (Moorabool or Council) for a higher cap of 3.5 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 matters² and the statutory objectives³ 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.

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

² Section 185E of the *Local Government Act*.

³ 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 us to have regard to a council's record of compliance with previous years' caps.⁴ 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.

⁴ Section 185E(6)(c) of the Local Government Act.

BOX 2 COMMISSION'S DECISION ON MOORABOOL SHIRE'S APPLICATION

Moorabool has applied for a higher cap of 3.5 per cent, that is, 1 per cent higher than the Minister's rate cap for 2016-17.

The Commission has assessed Moorabool's application and approves its proposed higher cap of 3.5 per cent for 2016-17.

The Commission is satisfied that the higher cap is consistent with Moorabool's well-developed long-term financial plan to deliver sustainable outcomes in services and critical infrastructure in the long-term interests of its community. We find Moorabool's application and long-term financial plan to be consistent with the requirements of the Fair Go Rates System.

2. WHAT DID THE COUNCIL APPLY FOR AND WHY?

Moorabool sought a 3.5 per cent rate cap for 2016-17 (inclusive of the Minister's rate cap of 2.5 per cent). Moorabool estimated that this would result in additional revenue of \$259 032.

Council has specified three reasons for the higher cap, being: i) to improve its long-term financial sustainability, ii) to address its asset renewal gap, and iii) to enable additional investment in new and upgrade assets for the benefit of the community.

Moorabool would use the additional \$259 032 to finance new and upgrade capital expenditure in 2016-17. This additional \$259 032 would be permanently included in the rate base. Moorabool indicated that this would contribute to achieving an underlying operating surplus and addressing its asset renewal gap by reducing the renewal backlog in its transport class of assets. Moorabool's application foreshadows that it intends to apply for a higher cap for the following three years for the same reasons it is required in 2016-17.

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

3. HOW DID WE REACH OUR DECISION?

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

TABLE 1 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>Moorabool stated that the funds will be used:</p> <p>To improve its long-term financial sustainability</p> <p>Council's modelling of its Long-term Financial Plan (LTFP)^a showed that adhering to the 2.5 per cent cap in 2016-17 would lead to cumulative losses of \$5.230 million over the next 10 years, whereas an increase of 3.5 per cent for 2016-17 would lead to cumulative surpluses of \$4.947 million over the next 10 years.^b</p> <p>To address its asset renewal gap</p> <p>Council stated that there is currently a \$14.361 million asset renewal backlog for its transport class of assets, and that this backlog will continue to grow. Council's LTFP modelling showed that, under a 2.5 per cent rate cap in 2016-17, there would be \$98.1 million expenditure on asset renewal over the next 10 years. To Council, this was not an acceptable rate of reduction in the renewal backlog. Under the scenario for a 3.5 per cent rate cap in 2016-17 there would be \$105.2 million expenditure on asset renewal over the next 10 years, eliminating the known transport asset backlog.^b</p> <p>To enable additional funding of new and upgrade assets for the benefit of the community</p> <p>Based on the scenario for a 2.5 per cent rate cap for 2016-17, Council stated it could fund \$4.0 million in new and upgrade assets over the next 10 years, or \$400 000 per annum. The scenario for a 3.5 per cent cap for 2016-17 allows Council to fund \$8.0 million in new and upgrade assets over the next 10 years, or \$800 000 per annum. For 2016-17, therefore, this means a doubling of funding for new and upgrade capital expenditure from \$400 000 to \$800 000. Council indicated that the following two projects were unlikely to be undertaken in 2016-17, pending further consultation, if Council was unsuccessful in receiving a higher cap.^b</p> <ul style="list-style-type: none"> • Masons Lane Western Pavilion (Design Works) — \$75 000 and • Station Street, Maddingley Urbanisation (Kerb and Channel/Shared Paths) — \$325 000.^c <p>Council provided sufficient evidence to support its reasons for a higher cap. Council provided financial analysis that indicates its financial position and asset renewal gap will deteriorate in the long-term. Further, Council's reasons for applying for a higher cap were consistent with Council's integrated planning and delivery framework.</p>

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TABLE 1 (CONTINUED)

Legislative matter	Summary
185E(3)(c) — how the views of ratepayers and the community have been taken into account in proposing the higher cap	<p>Moorabool's application and supporting documents showed that Council has a Community Engagement Policy and Framework,^{b,c,d,e} and a draft Service Review And Planning Policy^{f,g} to guide its consultation efforts. Council's application noted that it tries to maintain a dialogue with the community on strategic plans and services reviews.^{f,g,h}</p> <p>Moorabool appears to have engaged with the community specifically about applying for a higher cap, and the engagement program stated that, despite the efforts made to prepare for rate capping, Moorabool forecasts negative adjusted underlying results over the period of its 10 year financial plan. These losses will lead to cuts to services or deterioration of the asset base.ⁱ Council set out three different options for what it could provide:</p> <p>Council publicly presented three different options for what the Council could provide under:</p> <ul style="list-style-type: none"> • Option A: Rate cap of 2.5 per cent — future rate increases based on the rate cap. Cuts to services and capital works over time would be needed to ensure Councils financial stability. • Option B: Rate increase of 4.15 per cent — likely rate increase at the same level for the following 3 years. Council would be able to maintain current levels of service and capital works. • Option C: Rate increase of 3.5 per cent — likely rate increase at the same level for the following 3 years. Council fees and charges increased to achieve full cost recovery. Council would be able to maintain current levels of service and capital works. <p>Council sought feedback from ratepayers and residents through reply-paid voting cards mailed out to all households and non-resident ratepayers; social media; the 'Have Your Say' online portal; and other communications. More than 600 chose to respond and, of these, 63 per cent supported Option A; 10 per cent, Option B; and 27 per cent, Option C.</p> <p>In addition, Council commissioned a telephone survey of 400 people, apparently selected to represent a cross-section of the whole community.^j While 36 per cent of this sample preferred Option A and a capped rate rise of 2.5 per cent, 37 per cent supported Option B, and a further 27 per cent Option C. Respondents also said that the top key challenges facing the local area were 'traffic congestion' followed by 'road maintenance' and 'infrastructure planning'.</p> <p>Council discussed the results of community engagement on 23 March 2016 and resolved to apply for a rate cap of 3.50 per cent, with higher cost-reflective fees and charges. Council appears to have given most weight to the telephone survey results, and seen Option C as a compromise solution.^{j,k} Council in its application did not discuss how the results of the other engagement activities were considered in making its decision to seek a higher cap.</p> <p>It appears that Council's engagement policy and framework enabled it to undertake an extensive engagement program on a higher cap. We note the difference in opinion between the sample of respondents selected for the telephone survey, who favoured a higher rate rise, and the self-selected respondents using other methods to respond, who favoured staying with the 2.5 per cent rate cap.</p>

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TABLE 1 (CONTINUED)

Legislative matter	Summary
185E(3)(d) — how the higher cap is an efficient use of council resources and represents value for money	<p>Council provided details of a number of strategies it has undertaken to address the financial challenges it faces, including conducting service reviews, implementing a service planning and review framework, implementing the business excellence program and implementing budget controls.</p> <p>Service reviews — Council highlighted twelve service reviews undertaken since 2011 to improve the overall sustainability and viability of the Shire.ⁱ Some of these have resulted in financial savings for Council such as a 2014 review of the Fleet Policy, which resulted in a savings of \$790 000 for the first five years of the new policy's implementation and \$200 000 per annum thereafter. Other service reviews, while not resulting in financial savings, led to further efficiencies and better targeted service provision, such as a review of the Community Grants Program, which led to increased control measures in the allocation of grants to better meet its objectives as well as community needs. According to Council, where savings or reductions in costs have occurred, they have been incorporated into the 2016-17 budget or prior budgets as appropriate.^c</p> <p>Implementing a service planning and review framework — Council noted that, as a result of the numerous service reviews it has conducted in the past few years, it has developed a Service Planning and Review Framework to build on the learnings of these service reviews.^b Council stated that this Framework reinforces its commitment to ongoing service reviews and to planning to ensure that each service is aligned to Council's strategic direction, valued by the community and delivered in a responsible and sustainable way. The draft policy was introduced to Council in March 2016 and subsequently adopted in April 2016.^j</p> <p>Implementing the business excellence program — Council has introduced a Business Excellence Framework (BEX) which 'aims to create an environment for continuous improvement, a leadership focus on sustainable performance and improved capability to deliver desirable outcomes for the community'.^m The BEX is based on a set of principles and is aligned with the Council plan. Council has provided examples of the ways in which internal procedures or policies have changed as a result of the implementation of the BEX.</p> <p>Procurement — Council has provided its procurement policy (updated 3 June 2015) as evidence of efficient use of council resources and value for money.ⁿ Council also notes its framework of internal controls over procurement processes.</p> <p>Shared services — in its application Council indicated that it has explored partnering with other councils for the provision of staff development, environmental health and payroll services.^b As a result council has a partnership with Melton City Council in the delivery of staff development programs and has indicated it intends to increase cooperation with neighbouring councils in this area. Council has started liaising with Hepburn Shire Council regarding its payroll systems to see where there might be potential for collaboration. Council noted that its Service Review and Planning Framework allows for service units to assess whether there are opportunities for shared services with other organisations or councils.</p> <p>Budget controls — Council indicated that over the past five budgeting cycles, it made efforts to control and reduce annual operating expenditure and outlined the process it undertakes on an annual basis for an upcoming budget.^b</p>

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TABLE 1 (CONTINUED)

Legislative matter	Summary
185E(3)(e) — whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate	<p data-bbox="544 293 1362 349">Moorabool's application demonstrated that it had considered alternative funding options and service trade-offs. It considered:</p> <p data-bbox="544 360 1362 450">Reprioritising expenditure — Council provided detail of how it has sought to reprioritise proposed expenditures in the past and provided examples:</p> <ul data-bbox="560 472 1362 775" style="list-style-type: none"><li data-bbox="560 472 1362 562">• Reduction in senior staff management levels and administration staffing levels and the discontinuation of certain positions (savings of \$251 000 per annum)<li data-bbox="560 573 1362 663">• Elimination of Motor Vehicle Fringe Benefits Tax by increasing staff contribution to motor vehicle rates contributions (eventual savings of \$210 000 per annum)<li data-bbox="560 674 1362 741">• Discontinuation of family day care service (eventual savings of \$205 000 per annum) and<li data-bbox="560 752 1362 775">• Reduction in budgeted operating lease expense. <p data-bbox="544 797 1362 853">Council noted that its Service Review and Planning Framework will guide how it prioritises services in the future.^b</p> <p data-bbox="544 875 1362 909">Alternative funding options — Recent efforts in this area include:</p> <ul data-bbox="560 920 1362 1357" style="list-style-type: none"><li data-bbox="560 920 1362 1010">• Implementing a Special Charges Policy — which allows Council to implement a special rate or charge for properties receiving a special benefit from Council implementing necessary infrastructure works<li data-bbox="560 1021 1362 1178">• Reviewing fees and charges to ensure they are cost reflective — as part of the 2016-17 budget process, Council undertook a review of charges related to the provision of community safety. The review recommended that Council progressively increase charges for six years until full cost recovery is achieved.<li data-bbox="560 1189 1362 1357">• Analysing indirect costs and attributing them in a user pays model — in January 2016 Council conducted an exercise to calculate the share of organisational overheads attributable to waste management services. This cost has been allocated in the proposed 2016-17 Waste Management Charge and included in the Draft 2016-17 Budget. <p data-bbox="544 1368 1362 1424">Council stated that due to growth in the Council area and based on feedback from the community, it is not desirable to reprioritise expenditure further.^b</p> <p data-bbox="544 1435 1362 1491">Council noted that, despite cost reflective fees and charges having been factored into the modelling, it is still forecast to have underlying losses.^b</p> <p data-bbox="544 1503 1362 1704">Prioritisation of asset expenditure — Council has a detailed Asset Management Plan (AMP) which outlines how levels of service in regard to services and assets are determined.^o Council noted how community engagement informs levels of services and corresponding asset needs and how it balances that against other infrastructure demands.^{b,o} Council's AMP details how Council prioritises the renewal works programs and how it disposes of assets.</p> <p data-bbox="544 1727 1362 1805">Generally, Council provided good documentation of the processes in place (e.g. service reviews, business improvements, shared services) to operate in a cost-effective manner.</p>

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TABLE 1 (CONTINUED)

Legislative matter	Summary
<p>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>	<p>The reasons for seeking a higher cap are consistent with the strategic objectives and initiatives in the Council Plan.^p The Council Plan is based around three key result areas:</p> <ul style="list-style-type: none"> • Representation and Leadership of our Community. • Community Wellbeing and Enhanced Infrastructure. • Natural and Built Environment. <p>The reasons for the higher cap that Council is seeking appear to be consistent with the strategic objectives of sound, long-term financial management (coming under the first key result area) and management of assets and infrastructure (coming under the third key result area). The Council Plan is also consistent with Section 136 of the Local Government Act (Principles of Sound Financial Management).^b</p> <p>Council noted that the Strategic Resource Plan embedded in the Council Plan was modelled on a 5 per cent rate increase.^b In order to return to a similar financial position to what Council would have been in had rate capping not been introduced, it has explored introducing a combination of measures: saving strategies; efficiency dividends; full cost reflective pricing and rate cap variations. Council prepared two long-term financial plans spanning 10 years that were based on:</p> <ul style="list-style-type: none"> • a 2.5 per cent rate cap for 2016-17 and for each of the following 9 years and • a 3.5 per cent rate cap for the first four years followed by a 2.5 per cent rate cap for the subsequent 6 years. <p>Council demonstrated how its AMP is a key component of its BEX which draws on or feeds into Council policies, strategies and actions.ⁿ</p>

^a Council provided the Commission with two scenarios for its 10 year Long-term Financial Plan: 1) a 2.5 per cent rate cap for 2016-17 and the following 9 years; 2) a 3.5 per cent rate cap in 2016-17, 2017, 2018, 2019 and 2020 followed by a 2.5 per cent rate cap for the subsequent 6 years. These two scenarios and the assumptions therein are referred to throughout Council's application. These scenarios are modelled in the documents: Moorabool Shire Council 2016, Higher Cap Application — Attachments 02 2016-17 Long-term Financial Plan – 2.5, and 03 2016-17 Long-term Financial Plan – 3.5 for four years, March. ^b Moorabool Shire Council 2016, 2016-17 ESC Rate Cap Variation Application (Criteria Response), March. ^c Moorabool Shire Council 2016, Response to Essential Services Commission Request for Information, April. ^d Moorabool Shire Council 2016, 2016-17 ESC Rate Cap Variation Application Attachment 12, Community Engagement Policy, March. ^e Moorabool Shire Council 2016, 2016-17 ESC Rate Cap Variation Application Attachment 13, Community Engagement Framework, March. ^f Moorabool Shire Council 2016, Higher Cap Application — Attachment 14 — Draft Service Review and Planning Policy Framework, March. ^g Moorabool Shire Council 2016, Higher Cap Application — Attachment 15 — Strategic Planning Outcomes and Community Engagement, March. ^h Moorabool Shire Council 2016, 2016-17 ESC Rate Cap Variation Application (Criteria Response), March, p. 13. ⁱ Moorabool Shire Council 2016, 2016-17 ESC Rate Cap Variation Application (Criteria Response), March, p. 14. ^j Moorabool Shire Council 2016, Higher Cap Application — Attachment 24 — Rate Cap Variation — Telephone Survey Results, March. ^k Moorabool Shire Council 2016, Higher Cap Application — Attachment 16 — Rate Cap Variation — Community Engagement Plan — Report to Special Meeting of Council 10 February 2016, March. ^l Moorabool Shire Council 2016, Higher Cap Application — Attachments 28-38, March 2016. ^m Moorabool Shire Council 2016, 2016-17 ESC Rate Cap Variation Application (Criteria Response), March, p.23. ⁿ Moorabool Shire Council 2016, Higher Cap Application — Attachment 42 — Procurement Policy, March. ^o Moorabool Shire Council 2016, Higher Cap Application — Attachments 04 08 AMP PARTS A, B, C, D & E, March. ^p Moorabool Shire Council 2016, Higher Cap Application — Attachment 47 — Council Plan 2013-2017 Council Plan, March 2016.

3.1 ASSESSMENT

As required under the FGRS, we have examined each of the six legislative matters addressed in Moorabool'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, we considered that the higher cap in 2016-17 is appropriate for the following reasons:

- We are satisfied that Moorabool has addressed the relevant matters specified in the legislation.
- Council's long-term financial planning demonstrates that it has completed service reviews involving community engagement to determine service levels, good asset management planning, and sound financial strategies and practices.
- Council's long-term financial planning establishes a long-term funding need which justifies a permanent increase to the rate base.

This decision pertains to Moorabool's application for a rate increase in 2016-17 only. These matters are discussed in greater detail below.

UNDERLYING FINANCIAL POSITION AND DEMONSTRATED NEED FOR A PERMANENT INCREASE TO THE RATE BASE

To justify a permanent increase to the rate base, Moorabool should demonstrate a long-term financial need that is consistent with the long-term interests of its ratepayers and community for sustainable outcomes in service delivery and critical infrastructure.

Moorabool's current position is characterised by ongoing reported deficits in its operations, large infrastructure renewal needs, limited alternative sources of income and a small but growing rate base.

Key to Moorabool's reasons for applying for a higher cap is its long-term underlying financial position.⁵ Moorabool's forecasts of the Local Government Performance

⁵ Moorabool define the adjusted underlying result as the Surplus/Deficit for the year as per the Comprehensive Income Statement, adjusted to exclude Grant — Capital, Contributions — Monetary, Contributions — Non-monetary

Reporting Framework (LGPRF) financial indicators (under both ‘with’ and ‘without’ higher cap scenarios) show that it will operate with a slightly positive adjusted underlying result in 2016-17, but will then operate with a negative adjusted underlying result in the medium-term (table 2). Council stated that, if its underlying deficit is not addressed through a higher cap, it will progressively increase over time and will ‘eventually result in financial distress’.⁶

TABLE 2 LOCAL GOVERNMENT PERFORMANCE REPORTING FRAMEWORK INDICATORS

LGPRF indicator ^a	2014-15 (Actual)	2015-16 (Budget)	2016-17 (Forecast)	2017-18 (Forecast)	2018-19 (Forecast)
Operating position					
Adjusted underlying result^b (%)					
pre-FGRS	-0.43	-6.10			
‘without’ higher cap (a)			2.59	-3.02	-2.21
‘with’ higher cap (b)			3.14	-1.82	-0.44
difference (b-a)			0.55	1.20	1.77

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. ^a Table only includes LGPRF indicators considered in making our decision. ^b See Appendix B for definition of this indicator.

Data source Moorabool Shire Council 2016, *Response to request for further information*, April.

Our analysis shows that Moorabool appears committed to operating in a financially sustainable manner. In its application Council has demonstrated efforts in the past three years to improve its financial position. It has made savings through service level reviews, and efficiency gains from a range of initiatives as outlined in its application. LGPRF indicators show that Moorabool has lower unit costs to deliver a range of services than the average of similar councils. Moorabool has also demonstrated that it has explored a number of alternative funding options and scenarios as well as ways of reprioritising expenditure so as to operate within the FGRS environment.

and the net gain (loss) on disposal of property, infrastructure, plant and equipment and investment properties, divided by the adjusted underlying revenue. This definition is used throughout its application and is different to the LGPRF definition which does not include grants for operating costs. (Moorabool Shire Council 2016, *2016-17 ESC Rate Cap Variation Application (Criteria Response)*, March, p. 5.)

⁶ Moorabool Shire Council 2016, *2016-7 ESC Rate Cap Variation Application (Criteria Response)*, March, p. 5.

In seeking the higher cap, Council has sought to invest further in its new and upgrade capital program in 2016-17 and to close its asset renewal gap earlier in order to increase funding to its asset backlog, as matters of priority. We are satisfied that Moorabool appears to have good long-term financial planning, and capital works and asset management practices in place. Council appears to have anticipated and understood current and future asset requirements. Moorabool's Asset Management Plan appears to balance the technical requirements of its assets (engineering, environmental and other technical practices) and its community's expectations about those assets (through ongoing community engagement).

Investment in the new and upgrade program in 2016-17

Moorabool indicated it would use the additional \$259 032 provided by the higher cap to finance new and upgrade capital expenditure in 2016-17. Council is experiencing steady growth in its population so is investing in new and upgraded assets as well as renewing its existing assets. The prioritisation of this additional investment, achieved through a higher cap, in its new and upgrade program in 2016-17, appears to be in line with Moorabool's Council Plan and its Capital Works Evaluation Guidelines.⁷ Council has taken into account the views of its ratepayers and community on this additional investment in its new and upgrade capital expenditure, through the engagement process for a higher cap. Given that this proposed expenditure is consistent with its long-term financial planning, we are satisfied that the higher cap is appropriate.

Asset renewal

Moorabool's application indicates that it currently has a \$14.361 million asset backlog for transport assets and that its renewal demand will increase steadily over the next ten years.⁸ Under the 3.5 per cent rate cap scenario proposed by Moorabool,⁹ expenditure on asset renewal will begin to increase at a much higher rate from 2018-19 and it will eliminate the transport asset backlog by 2025-26.¹⁰ Under an ongoing 2.5 per cent rate

⁷ Moorabool Shire Council 2016, *Higher Cap Application — Attachment 10 Capital Works Evaluation Guidelines*, March.

⁸ Moorabool Shire Council 2016, *Higher Cap Variation Application (Criteria Response)*, March.

⁹ This scenario assumes a 3.5 per cent rate cap in 2016-17, 2017-18, 2018-19 and 2019-20 and a 2.5 per cent rate cap for the subsequent 6 years.

¹⁰ Refer to chart 'Projected Year-End Renewal Backlog' in: Moorabool Shire Council 2016, *2016-17 ESC Rate Cap Variation Application (Criteria Response)*, March 2016, p. 9; Moorabool Shire Council 2016, *Higher Cap Application — Attachment 02 201617 Long-term Financial Plan – 2.5*, March; Moorabool Shire Council 2016, *Higher Cap Application — Attachment 03 201617 Long-term Financial Plan – 3.5 for four years*, March.

increase, however, this would take a further five years. Moorabool's most recent community engagement raised traffic congestion, road maintenance and infrastructure planning as key challenges facing the local area.

We consider that the balance between addressing the technical requirements of assets and the expectations of its community will need be periodically reassessed to ensure that Council's management of its assets continues to be responsive to the expectations and needs of its community. In particular, Council will need to reconfirm ratepayers' ongoing support for a higher cap rather than a slower renewals profile to close the gap (that is, whether ratepayers would prefer to stay within the Minister's cap even though that would add another five years to close the renewal gap).

Moorabool's application demonstrated that it has undertaken capital works planning which prioritises investment in new and upgrade capital expenditure in 2016-17. The additional funding provided by the higher cap will enable Council to further invest in new and upgrading existing assets and will provide ongoing funding to improve its asset renewal position in the longer-term. This is consistent with Council's LTFP and AMP.

Based on our analysis of Moorabool's application, we consider that Moorabool has demonstrated a need for a higher cap in 2016-17.¹¹

¹¹ On 16-17 May 2016, Moorabool submitted supplementary information regarding the changes in the Proposed 2016/17 Budget for Moorabool Shire Council (which is now out for public consultation) as compared to the Draft Budget submitted to the Commission with its original application. Although the updated projections indicate Moorabool's adjusted underlying result has slightly improved, the updated information does not materially affect the 10 year financial outlook. Our decision to approve a higher cap based on an underlying financial need has not changed as a result of this supplementary information.

MONITORING OF OUTCOMES

Under the FGRS framework, we are required to report annually on each Moorabool's compliance with its rate cap and every two years on outcomes from the FGRS. When doing so, we will monitor and report on whether Moorabool has spent the funds from a higher cap in accordance with the expenditure needs cited in its application. While we approve rates and not individual expenditures, it will be important that the community and ratepayers receive confirmation that their council has fulfilled its expenditure commitments. In the event that those additional funds have been redirected to other areas of expenditure, we will seek and publish Moorabool's explanation for the reallocation of those funds.

APPENDIX A: SUMMARY OF COMMUNICATIONS WITH MOORABOOL

Moorabool submitted its application for a higher cap on 31 March 2016. In response to its application we sought additional information from Moorabool (table 3). Moorabool's application and its response to our request for further information can be found on our website.

TABLE 3 COMMUNICATIONS BETWEEN MOORABOOL AND THE COMMISSION

Date	Nature of communication
31 March 2016	Moorabool submitted its application
18 April 2016	Commission issued to Moorabool a request for information (RFI)
22 April 2016	Moorabool contacted Commission to clarify questions in the RFI
22 April 2016	Commission responded to Council query on the RFI
26 April 2016	Moorabool contacted Commission to clarify questions in the RFI
26 April 2016	Commission responded to Council query on the RFI
26 April 2016	Moorabool submitted its response to the RFI
27 April 2016	Moorabool submitted further information in response to the RFI
16 May 2016	Moorabool submitted supplementary information regarding the changes in the Proposed 2016/17 Budget for Moorabool Shire Council
17 May 2016	Commission responded to Council regarding supplementary information on the Proposed 2016/17 Budget for Moorabool Shire Council with some queries
17 May 2016	Moorabool provided additional information regarding the supplementary information on the Proposed 2016/17 Budget for Moorabool Shire Council

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.