SF/2209 31 March 2016

In reply please quote

Your Reference Andrew Bond

Telephone Enquiries

The Local Government Team
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne, Victoria 3000

Murrindindi
Shire Council

Dear Andrew,

Re: Murrindindi Shire Council – Application for variation to the rate cap for 2016/17

I hereby attach to this letter Murrindindi Shire Council's application for variation to the rate cap for 2016/17.

Should you require any clarification regarding the application or any of the attached supporting documents, please do not hesitate in contacting Council.

Yours faithfully,

Margaret 3 Abbey

Margaret Abbey
Chief Executive Officer

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CERTIFICATION STATEMENT

MURRINDINDI SHIRE COUNCIL

I certify that I have reviewed this completed Budget Baseline Information template, and understand that it will be used by the Essential Services Commission for the Fair Go Rates System.

I confirm that this data represents fairly the forecast financial transactions and position of our council for the period specified and that the forecasts are made on reasonable grounds.

I confirm that this is public data, and that I have no objection to the Essential Services Commission using and publishing this data for the purposes of the Fair Go Rates System.

Signed:

Margaret S Abbey 31/3/16

Margaret Abbey [DATE]
Chief Executive Officer

Application for Variation to Rate Cap for 2016-2017

Murrindindi Shire Council

March 2016

Contents

Part A – Background Paper

1. Executive Summary

“Recent estimates suggest the ongoing cost to Council of operating, maintaining, insuring and renewing these gifted assets is in the order of $1.87 million per annum over the next ten years to 2020/2021. This ongoing obligation is unable to be met by council and is expected to have a significant impact on the financial sustainability of the Council’s operations...... a long-term solution is now being sought to ensure the continued viability of the Council’s operations”*

*(Source KPMG Risk Assessment and Modelling of Financial Assistance 2012 page 4 * further refined analysis revised this figure to $1.762 million p.a., see B.CONF 5)*

Murrindindi Shire Council (MSC) has a clear and demonstrable requirement for a variation to the State Government’s rate cap of 2.5% for 2016-17 and is seeking a rate increase of 5.4%, consistent with its Long Term Financial Plan (see A. 91).

MSC faces a unique set of circumstances arising from the unintended consequences of reconstruction efforts which followed the 2009 Bushfires. In addition to having a reduced rate base following the disaster, the Council was gifted $33 million worth of new or expanded assets following the reconstruction effort. The ongoing cost to Council of operating, maintaining and renewing these assets is significant, representing an additional $1.76 million per annum.

Cognisant of the funding crisis facing it, the Council conducted a major review of its financial position in 2011/12 with assistance from consultancies KPMG and CT Management (see B.CONF 1, B.CONF 5, B.CONF 2 and B.CONF 3). This review highlighted that Council’s future cash flow, as projected at the time, was not sustainable and Council’s liquidity ratio would decline sharply in the coming decade due to the impact of the Shire’s reduced rate base and the additional renewal, operating and maintenance costs arising from the gifted assets.

Even in the absence of these additional asset-related costs the Council was facing significant financial challenges with its budget expected to fall into deficit by 2013 with no forecast to return to surplus in the immediate term. The ongoing cost of the gifted assets was expected to exacerbate the Council’s already negative financial position thus compromising its ability to maintain services and meet operational objectives. The review recommended immediate and direct intervention to ensure the long term financial sustainability of the Council.

The Council commenced a major Services Review in 2011/12 (see B.CONF 4 and A. 7a) to identify savings and/or increase revenue that would enable the Council to remain viable into the future. In February 2012 Council resolved to implement a range of measures from the Services Review to create organisational efficiencies and help address the growing infrastructure renewal gap resulting from post-bushfire reconstruction. The Council also embarked on a revised Long Term Financial Plan (see A. 10) which limited annual rate rises to 6% or less over the life of the Plan, incorporated an initial $1million in forecast recurrent operational savings from 2012/13, and established an infrastructure renewal reserve in an attempt to arrest the predicted growth in the asset renewal burden.

Council also actively and persistently advocated to successive State Governments for additional funding assistance to help manage these additional costs associated with the gifted assets, however these efforts have been unsuccessful.

Since the initial Services Review in 2012 (see B.CONF 4 and A. 7a), Council has conducted eleven individual department and unit services reviews which have focused on cutting costs, working smarter and delivering greater efficiencies through restructuring. Consequently, Council's EFT staffing level is currently at 2008 levels, despite the additional demands on the organisation since that time, including increased requirements in relation to statutory compliance, performance reporting, communications and now rate capping.

These reviews have been conducted to ensure Council adapted its approach to the changing needs of its community, and included taking a growth and development-focused approach to its planning and organisational structure to promote greater economic development in the Shire with the goal of growing revenue.

Council has also engaged in shared services arrangements with neighbouring councils, other municipalities and through local government bodies to deliver value for money services (Refer Part B – Criterion 4).

Council's success in managing its long term financial position since 2011/12 was reflected in its revised Strategic Resource Plan of 2015/16 (see A. 91) which has reduced the initially projected annual 6% rate rises to a position of gradually decreasing annual rate rises commencing with 5.4% for 2016/17, and declining to 4.0% by 2023/24.

Council maintains a prudent and fiscally-conservative approach to its financial management, in line with best practice recommendations from the Victorian Auditor General's Office (VAGO) (see A. 34). Council policies and practices in this regard reflect its desire to ensure the costs of assets are spread equitably across the generations that receive a benefit from them.

Through Council's awareness of its ongoing funding challenges and efforts to reduce the operating and renewal costs of its assets, Council has also developed a detailed understanding of its asset cost base, which has been peer reviewed to be one of the most detailed held by a Council in the State.

Through 2012 to 2014 the former Victorian Government sought independent assessment of Council's funding situation through Local Government Victoria (LGV). This was done in the context of Council's advocacy efforts aimed at attracting funding to offset the ongoing costs to Council of the new and gifted assets. Council's understanding of its cost base has been independently reviewed by LGV's adviser, Mark Davies (see B. CONF 17). This report however was only noted by LGV and did not lead to any future briefing to the Minister for Local Government, nor consideration of any alternative forms of assistance.

For many councils, the introduction of a rate cap will serve as a catalyst to initiate reviews of services, costs and their management of assets. Murrindindi Shire Council has already done that work which is the basis of a compelling case for an exemption to the rate cap (Refer Part B – Criterion 2 and 4).

In parallel with its advocacy efforts (and long before rate capping was announced), Council was actively discussing its funding situation with the community. In 2010 Council spoke with the community about its efforts to deal with the funding situation facing it, including about a KPMG report which had been commissioned to assist Council in gaining an understanding of recurrent whole-of-life costs arising from post-bushfire related rebuilding programs and the need for the community to appreciate the link between future recurrent costs and council rates (see A. 2).

In order to ensure Council understood the long term needs of the community as it worked to address Council's funding situation, in August 2012, Council commenced a major community consultation to create the 'Murrindindi 2030 Vision' (see A. 111). Following a series of workshops, surveys and meetings, the Vision Statement (see A. 111) was adopted by Council in 2014.

In 2012 Council made a commitment to the community that it would increase rates by no more than 6% annually. Following advice from the former State Government in mid 2014 that it would not provide further funding assistance to Council, Council launched a funding advocacy community consultation to discuss with the community the range of options (see A. 57). facing Council if it was to deal with its funding shortfall – including an option of a rate increase of more than 6%. While a one-off rate increase of 18% was attractive to a small number of residents, this was overwhelmingly rejected by the community.

The feedback from Council's ongoing community engagement has in turn shaped the set of priorities which underpin Council's Rating Strategy (see A. 84), its Ten Year Long Term Financial Plan and its annual budget planning. To now limit rate increases to 2.5% p.a. would ignore the previous extensive community consultation that has informed Council's understanding of the community's service delivery expectations.

Council has worked hard to overcome the challenges associated with achieving meaningful community engagement in the Shire, including a range of practical constraints, such as rising postage costs, telecommunications blackspots and limited print media circulation and publication cycles. Council believes it understands the best way to communicate and engage with residents, given its resource limitations, and this is set out in Council's Community Engagement Policy (see A. 17) and Guidelines and Community Engagement Toolkit (see A. 18). The contact some members of the community have had directly with the ESC about MSC's intention to seek a rate cap variation reflects the success of this communication.

Council is confident that the long term engagement with the community has ensured the community has a good understanding of Council's unique circumstances and need to apply for a rate cap variation. Council has issued a significant number of media releases, Mayor's Chairs and Councillor Comments raising with the community the likely impact of the proposed rate cap on Council since the current Government's election to office in November 2014 (see Appendix for complete listing). Both Councillors and Council management have continued to discuss this issue on weekly local and regional radio spots. Since the adoption of rate cap legislation in October 2015 and announcement of the rate cap limit of 2.5% on 22 December 2015, Council has discussed with the community via media releases (see A. 95, A. 96, A. 101, A. 103, A. 104, A. 105, A. 106, A. 107, A. 108) and on radio the implications of the cap and Council's intention to seek a variation to the cap which, if successful, would see an increase in rates of 5.4%.

Clearly this is a challenging message to deliver to our community and we acknowledge that all communities, including Murrindindi Shire's, would prefer their councils adhere to a 2.5% cap and maintain service levels. Given what the Murrindindi Shire community has been through during and after the fires, Council does not believe the community should have to choose between preserving access to important services and community assets and seeking a variation to the rate cap. The community of Murrindindi Shire, while healing, is still recovering from the effects of the 2009 bushfires. This is a long term process, despite progress in rebuilding what was destroyed.

Council's repeated and consistent message since 2010 has been that it is unreasonable to expect the community to bear the full cost of State Government decision; be they decisions which increase its expenditure or reduce its income. However, Council has no other means of addressing its ongoing funding shortfall than to increase rates beyond the cap to deliver the services the community has identified as important to it, including through our Murrindindi 2030 Vision exercise.

The consequences for the Shire if Council is not successful in securing a rate cap variation are considerable. The ultimate impact of the loss of revenue that will be felt by Council over the next 10 years when compared to its adopted Strategic Resource Plan and Long Term Financial Plan (LTFP) will be $22.06 million, if the current rate cap is assumed to be applied as a constant over the life of its LTFP.

Council has already raised with the community in recent months the prospect of cutting back or eliminating services altogether if it is not successful in achieving a rate cap variation. The timing of the announcement of the rate cap in late December 2015 and the tight deadlines for submitting an application for variation to the cap however has not allowed Council to undertake a full scale review with the community to prioritise services the community would be willing to lose. If Council was unsuccessful in its application it would need to make decisions that have not been fully tested with the community in order to meet the statutory timelines associated with the adoption of the budget.

Council is concerned this will have a disproportionately negative effect on the most vulnerable. It could also lead to a decline in prosperity and for the future the community wants to secure for the Shire.

We note in this context that in previous services reviews, the community's reaction to even minor restructuring which has affected services has been extremely negative. A restructure to make a saving of around $50,000 p.a. that resulted in staff redundancies in the Murrindindi Library Service resulted in a sit-in at Council offices and picketing at the Alexandra Library. It also attracted considerable state-wide media attention (see A. 21).

Revenue loss of this magnitude over the next decade would not be able to be absorbed by Council's current financial structure and cash reserves, as evidenced by the financial review undertaken back in 2011/12, and would require further extensive review and community consultation to determine how Council would need to adapt to meet this new financial challenge.

2. 2009 Bushfire Impacts

While a peri-urban Shire, Murrindindi Shire is not experiencing similarly high levels of growth and expansion as other peri-urban Shires are. The Shire is not included in the State Government defined growth corridors, has limited transport routes and continues to experience major telecommunications infrastructure blackspots. The Hume Regional Growth Plan (see A. 50) provides only limited growth opportunities through its identification of areas around Alexandra and Yea.

Murrindindi Shire Council funding situation before the 2009 Bushfires was typical of that faced by all small rural shires at the time. Council's budget rating revenue structure for 2008/09 (see A. 1) was based on 9,256 rateable assessments with a total value of $3.216 billion (Capital Improved Value or "CIV"), with CIV growth recorded at 8.02% for the 2008/09 financial year.

Following the 2009 fires, the CIV of rateable assessments within the Shire declined by over $201 million, a 6.26% decrease at a time when Council's post-fire costs increased significantly. The total value of CIV for rateable assessments within the Shire did not surpass the pre-bushfire levels of $3.216 billion until 2012/13, and remain substantially behind conservative projected growth figures that were used in 2008 in calculating Council's long term financial projections.

It should be acknowledged that Murrindindi Shire also has a range of demographic and geographic challenges that made delivery of services to the community before the fires – and after - challenging.

Unlike many small rural Shires, Murrindindi Shire has a small and highly dispersed population in multiple smaller population centres (in Alexandra, Kinglake, Marysville, Eildon and Yea and many others) spread across a large geographical area which is bisected by a mountain range, making travel difficult. A good illustration of the challenges this presents is the need for Council to maintain offices/libraries in three locations and swimming pools in four towns across the Shire to ensure reasonable equity of access for the community to important Council facilities and services.

The 2009 Victorian bushfires were Australia's most devastating natural disaster and Murrindindi Shire was the Shire most affected in the State. The scale of the disaster was unprecedented, with 95 lives lost and 1,397 homes destroyed within the Shire. 75 businesses and shops were lost, 16 community facilities destroyed (and a further 9 damaged) and 234 sheds on vacant land destroyed. While 40% of the Shire was burned, 100% of the Shire was affected.

Following the fires, the State Government established the Victorian Bushfire Reconstruction and Recovery Authority (VBRRA) and the Victorian Bushfire Appeal Fund (VBAF) to help manage the reconstruction process and the funds that had been donated.

The generosity of communities, NGOs and State and Federal Government was extraordinary in response to the disaster. Council was under considerable pressure to agree to rebuild a range of new and expanded assets quickly in order to spend the substantial funds allocated through VBAF that had been dedicated to reconstruction, following commitments by State and Federal Government to "rebuild every building."

It is important to note that the reconstruction process was heavily controlled by the Victorian Government. Decisions were made in meetings chaired by VBRRA. Council had input to the process but did not control eventual decisions and outcomes. The human element was also a factor in the level to which Council Officers were able to be engaged in that process; like all residents of Murrindindi Shire, Council officers were deeply affected by the fires and some, like other residents, lost loved ones, friends and their homes.

It is fair to say in hindsight that some hasty decisions were made during the rebuilding process overseen by VBRRA about new assets and the scale and appropriateness of some assets that were rebuilt. Many decisions were made based on short term expediency; assets were built/rebuilt often without broad community consensus, and with an eye to expending the large amount of available VBAF funding. Those decisions were often not made with consideration for the long term consequences, either for Council or the community. The photos below illustrate the scale of the issue that was repeated in fire-affected areas across the Shire, and which continues to affect Council's funding situation.

Before – Marysville Pavilion

After – Marysville Community Centre

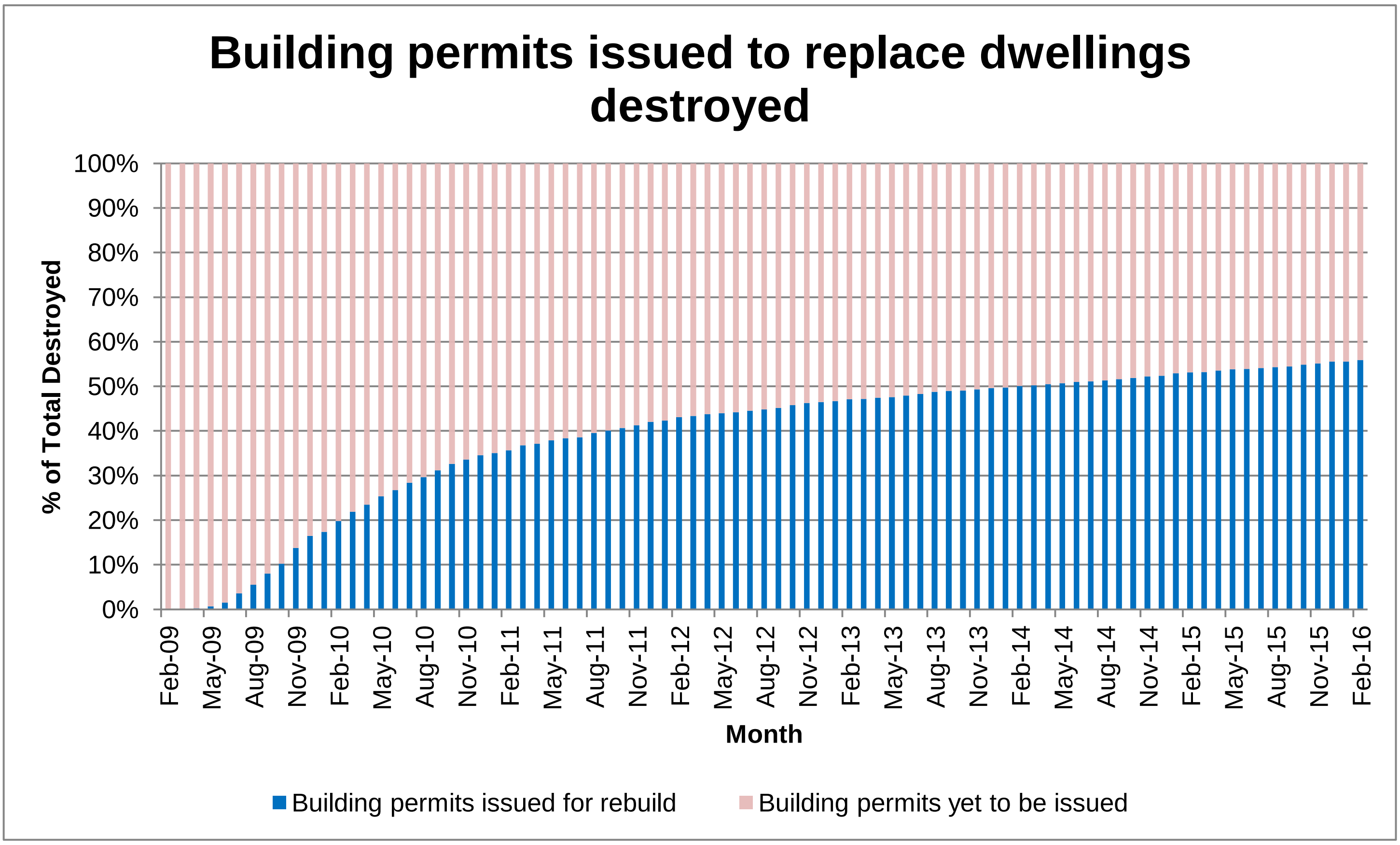
These new and enhanced assets were progressively gifted to Council by VBRRA following the reconstruction phase, without consideration being given to how Council would afford the costs associated with management of a significantly larger asset base. In addition to rebuilt and enhanced assets such as shown in the photos above, the large sums of money which VBAF needed to allocate to bushfire recovery resulted in construction of a range of new assets which significantly increased Council's costs.

The annual cost of the operation, maintenance and renewal of the new and enhanced assets has had a significant impact on Council's funding situation. Before the fires, the annual cost to Council of managing these assets was $1,040,000; the annual cost to Council post reconstruction is $2,804,000.

The time, funds and resources necessary to ensure community recovery were significant, but the consequences and ongoing need for assistance that followed on from the range of decisions made in the aftermath of the fires were underestimated by all those involved. It is now recognised that recovery takes much longer.

At the same time as these assets were gifted, Council's revenue was substantially reduced. The destruction of rateable residential and business property resulted in a significant decline in revenue, the compounding benefit of which has not yet been replaced.

To date only 55% of owners of properties where dwellings were destroyed by the fires have sought approval to rebuild, significantly lowering the amount of rates that Council would have otherwise generated from these properties if developed. The graph below shows rebuilding progress since 2009. The estimated shortfall in rate revenue due to properties destroyed or damaged in the fires for the 2015/16 financial year is $343,663, which is equivalent to 1.9% of total budgeted rating revenue for the year.



Buyback Scheme

A recommendation of the Bushfire Royal Commission, later endorsed by the State Government, was to institute a voluntary Bushfire Buy-back Scheme which enabled landowners to sell to the Government properties in some bushfire-affected areas.
The Government's Bushfire Buyback Scheme resulted in 85 revenue-generating properties being transferred into state ownership in 2012/13, which resulted in a an immediate loss of $87,000 of rating revenue based on the capital improved valuation of these properties prior to the bushfire occurring. This annual loss of revenue continues as Council cannot collect any rates from these properties unless they are re-sold to adjacent property owners. If and when this land is sold into private ownership, the new rate value of this land will be assessed only as site value as part of the consolidated property, as housing cannot be built on Buyback land.

3. Advocacy since fires

Council has been actively seeking to address its funding situation by initiating a range of reviews and engaging with the community to hear its views about the current levels of Council services and assets.

At the same time, and in recognition of the very real limits on Council's ability to deal with the consequences of the new and gifted assets, Council has been very active in advocating to the State Government for additional assistance to manage its funding situation.

Council has initiated numerous meetings and written communication with successive governments to seek assistance in dealing with the consequences of the gifting of assets to Council following the fires, but had received neither confirmation nor rejection of its case. Meetings were held with the following State parliamentary and departmental representatives:

<u>2012:</u>
Jeanette Powell – Minister for Local Government – 21 November
Peter Ryan – Minister for Regional Development – 22 May
Andrew Tongue – Departmental Secretary DPCD– 26 April
Andrew Tongue – Departmental Secretary DPCD – 27 February

<u>2013</u>:
Cathy McGowan – Federal Member for Indi – 19 December
Kim Wells – Minister for Bushfire Response – 29 August
Jacinta Allan – Shadow Minister for Bushfire Response – 20 August

<u>2014</u>:
Steve Herbert – Shadow Minister for Tertiary Education – 18 June
Tim Bull – Minister for Local Government – 17 June
Wade Noonan – Shadow Minister for Bushfire Response– 22 May
Hume RDA Committee – 24 April
Richard Wynne – Shadow Minister for Local Government – 9 April

<u>2015</u>:
Luke Donnellan – Minister for Roads and Road Safety – 15 October
Jaclyn Symes – Member for Northern Victoria – 5 October
David Davis – Shadow Minister for Local Government and Planning – 9 September
Natalie Hutchins – Minister for Local Government – 7 July
David Davis – Shadow Minister for Local Government and Planning – 2 July
Pat Cook – Ministerial Advisor to Minister Hutchins – 15 May
Jaala Pulford – Minister for Regional Development – 21 April
Jaclyn Symes – Member for Northern Victoria – 2 March

Finally, in June 2014, then Minister for Local Government Tim Bull (see A. 51) wrote to Council to inform it that the State Government would not agree to its request to provide funding support to meet these costs.

Most recently, Murrindindi Shire Council Mayor Margaret Rae wrote separately on 26 November 2015 to Premier Daniel Andrews (see A. 97) regarding Victoria's Regional Statement and Minister for Local Government Natalie Hutchins (see A. 98) regarding the impact of the 'Fair Go Rates' legislation on Councils. In the letter to the Premier the Mayor expressed her interest in the statement within Victoria's Regional Statement that to support the Goulburn region in achieving its growth objectives, the Government will work with the region to address a number of challenges including:

"Continuing to support the region (particularly the Murrindindi Shire) to recover from the significant economic, social and environmental damage from the 2009 Back Saturday bushfires:" (p.60)

The letters, including the response on behalf of the Premier by Minister Pulford (dated 8 March 2016) are attached (see A. 109 and A. 110). The response provides no specific indication as to what support will be provided to Murrindindi Shire.

In her letter to Minister Hutchins, the Mayor expressed her concerns about the impact of the rate cap on Council's long term Strategic Resource Plan and ability to deliver promised services in the context of an ongoing communications strategy with the community about Council's funding situation. The response from the Minister (dated 3 March 2016) is attached and simply outlines the application process and the review of the Local Government Act 1989 without responding to the particular concerns raised by the Mayor in her correspondence.

4. Financial analysis of infrastructure costs

On 25 May 2011 (see A. 7), Council resolved to identify savings and revenue to enable the establishment of an infrastructure renewal reserve sufficient to help manage the growing infrastructure renewal gap and provide a sustainable cash flow (while limiting further rate increases in each of the following 10 years to 6% or less). The Council adopted the strategy for 2012/13 to allocate a third of the value of the annual rate increase into this reserve.

Two reports were commissioned from KPMG; one (2011, see B. CONF 1), which quantified the initial estimates of the scale of the financial problem facing Council associated with the gifted assets and a second report (2012, see B. CONF 5) which refined these estimates and provided guidance to Council on its financial risk exposure and options for advocacy for funding assistance. A report was also commissioned from CT Management (see B. CONF 2 and B.CONF 3) to advise on organisational structure and operational efficiencies and to assist the council develop its revised Long Term Financial Plan.

5. Services Review

Council resolved to initiate a Services Review in 2011 (see A. 7) to identify efficiencies and savings.

Council implemented a range of recommendations from the Services Review which was adopted in 2012. In addition to identifying immediate operational efficiencies, the Services Review involved a four-point Action Plan (see B.CONF 4 and A. 7a) to provide a sustainable cash flow, arrest growth in Councils asset renewal gap, and limit the level of rate increases over the next decade.

Council's Action Plan included:

- Disposal of some land, buildings, plant and equipment considered to be surplus to needs
- Assessment of fees and charges to bring them in line with those of other comparable Councils
- Introduction of policies that delivered cost savings
- Streamlining Council services and operations including restructuring Council.

Council's Action Plan provided a framework to build a secure financial footing for the future, while minimising impacts on ratepayers and the broader community. The plan provided for an estimated $1.6 million in operational savings p.a., as well as providing for a one-off capital injection of $4.45 million through property sales over several years (see A. 7a).

While this Review and Action Plan (and subsequent smaller internal reviews) reduced Council's operating costs, they do not fully address the ongoing funding shortfall facing Council in the longer term (Refer Part B – Criterion 4).

Following services reviews and with ongoing vigilance, Council's staffing levels have returned to below 2008 levels. This is notable, given a range of new obligations imposed on Local Government since that time (governance, compliance, performance reporting, community engagement and communications).

6. Community engagement since 2009 regarding the financial challenges faced by the Shire

Since the 2009 fires, Council has been engaged in long term and ongoing community engagement about Council's service levels, rates and its long term financial sustainability. More detail about this is provided in Council's response to Criterion 3.

Council would however like to note a number of constraints on communication that complicate communication for small rural councils, and particularly one with multiple population centres such as Murrindindi Shire.

While Murrindindi Shire has multiple rural media outlets, none of these publishes more often than weekly and some only publish monthly. Not all of our communities have ready access to weekly (or any) publications and this particularly applies to the western part of the Shire (including Kinglake Ranges).

Additional challenges include telecommunications blackspots across the Shire that inhibit other forms of electronic engagement and an ageing population which often prefers communication in hardcopy form, many of whom have not yet embraced electronic forms of communication.

The cost of traditional mail outs has become prohibitive. A mailout across the Shire now costs in excess of $20,000 with cost increases from Australia Post which came into place in January 2016 – again, this is a cost which Council is unable to absorb. We believe the community would not appreciate the irony of Council spending tens of thousands of dollars on a communications campaign about a rate cap variation which seeks to increase their rates above the cap.

Similarly, we do not believe the community would appreciate Council spending tens of thousands of dollars to engage communications consultants to carry out communications and engagement projects, or write a submission to the ESC on Council's behalf (as we understand a number of other, better-funded councils have done). The need both to conduct ongoing strategic engagement with the community and provide a detailed submission to the ESC without external assistance places a considerable additional impost on Council staff in an already very tight staffing situation.

Council makes these points to emphasise the additional burden on small rural councils of complying with requirements such as those in the ESC guidelines.

7. Council's approach to financial management, asset management & ensuring a sustainable future for the community

There are a number of other ongoing challenges facing all Victorian councils but particularly small rural councils, that further compound the unique funding circumstances with which Murrindindi Shire Council is dealing, as discussed further below.

Cost shifting

As a small rural Council, MSC is dealing with the disproportionate impacts of ongoing cost shifting by state and federal governments. Council has prepared a document which details the range of costs and obligations which are being shifted to Council (see B.CONF 20)

A good recent example is the decision by the State Government to pass on increased costs of the VEC to conduct council elections to councils to deal with – amounting to an average of 34% increased cost to councils (representing an increase of more than $40,000 to MSC compared to the previous Council elections and equivalent to a 0.33% rate rise). The State Government and the Victorian Electoral Commission cited "inflationary pressures" in the decision to pass on this increase. Council understands very well the effects of inflationary pressures on costs and how these are often well above CPI increases (and therefore also substantially exceed the proposed CPI-linked rate cap increase for Councils).

Reliance on Non-Recurrent Grant Funding

Council has been told by successive State Governments (most recently in relation to income lost due to the Government's Buyback Scheme) that while additional funds will not be forthcoming for support for the additional costs to Council of the gifted assets or the loss of revenue, Council can instead apply for non-recurrent grant funding. Non-recurrent grant funding does not compensate for lost revenue. Further,

- Non-recurrent grant funding is often won through a competitive process and is therefore an uncertain funding source, particularly for a small rural council if bidding against better-resourced councils.
- The lack of certainty with non-recurrent grant funds from year to year makes planning strategically difficult. Non-recurrent grant funding imposes particular constraints on small rural councils which, given limited resources, must plan strategically.
- Non-recurrent grant funding also makes community engagement challenging, as grants often become available with short application periods and don't necessarily accord easily with budget and capital works cycles.
- Non-recurrent grant funding applications are also an additional impost on the limited resources of small rural councils.
- Non-recurrent grants are often only offered for new projects or projects which are likely to be 'launched', not for the renewal of existing infrastructure or for the continued provision of services. Council's funding situation means Council is not proposing to undertake new projects within the Shire.
- New projects also mean new and recurring maintenance, insurance and renewal costs, and this is another reason why Council is reluctant to initiate such projects in its current funding situation.
- Many non-recurrent grants require a funding contribution from Council - Council's funding situation would be further inhibited by the rate cap, which means it will generally not be in a position to initiate projects where it must also make a contribution. This will further reduce sources of grant funding available to Council and in turn inhibiting Council's growth strategy which is aimed at reducing the ratebase so that we can progressively rate increase.

Financial Assistance Grants

The announcement of the freeze on Federal Financial Assistance Grants in 2014 further exacerbated the growing pressure on small rural Shires in general, and on Murrindindi Shire Council in particular. Council estimates that the indexation freeze will result in a $610,180 budget shortfall for Murrindindi Shire Council between 2014 and 2017. Details are as follows:

	Budget	CPI	VGC Indicative	Shortfall
2013/14	$ 4,294,841			
2014/15	$ 4,402,212	2.50%	$ 4,309,791	-$ 92,421
2015/16	$ 4,512,267	2.50%	$ 4,309,791	-$ 202,476
2016/17	$ 4,625,074	2.50%	$ 4,309,791	-$ 315,283
Total	**$ 13,539,553**		**$ 12,929,373**	**-$ 610,180**

Council needs to generate new sources of income to deal with the consequences of State and Federal Government decisions to pass on cost increases or to freeze grants to Council as those grants no longer keep up with inflation.

A decision at the same time to limit councils' ability to generate income from rates means councils have no choice but to reduce or eliminate services.

Debt Strategy

As referenced in Council's Strategic Resource Plan, Council's current debt level is broadly consistent with the median level of debt as a percentage of revenue for Small Rural Councils in Victoria.

Council has determined that a prudent level of debt will not exceed $500,000 in new borrowings per annum over the next 10 years. On that basis, Council's overall debt level is projected to diminish.

In 2013/14 7.59 cents in the rate dollar received serviced debt – both principal and interest payments. While higher than the average of small rural Councils in Victoria, this represents a steady decrease from levels of a few years ago, where debt commitment per assessment exceeded 13 cents in the dollar. Current levels of debt are affordable and the added benefit of lower interest rates reflects the benefit of taking out loans over a longer period.

The 'intergenerational equity theory' is based on the premise that successive generations and new residents should contribute to infrastructure or facilities that they will enjoy and from which they will benefit. By borrowing, the Council ensures today's ratepayers are not fully funding these facilities. If Council was to borrow too heavily it would result in an inability to invest in capital works due to funds being consumed in debt repayment.

Asset Management

Councils across Australia are facing the problem of ageing assets in need of renewal. Many of these assets were not initially funded by councils, but came about by State and Federal government grants, developer contributions, or from a shift of responsibilities for State owned assets to Local Government.

Council undertakes regular asset condition assessments to utilise accurate data for its major asset categories and has completed Asset Management Plans and asset audits in accordance with the various standards required.

The importance of this strategic approach to asset management in knowing the current condition and performance (level of service) an asset provides allows Council to:

- Plan for and manage the delivery of the required level of service;
- Avoid premature asset failure, leaving open the option of cost-effective renewal;
- Manage risk associated with asset failures;
- Predict future expenditure requirements, and
- Refine maintenance and rehabilitation strategies.

Council, as a manager of public infrastructure, assesses the relative merits of rehabilitation, renewal or replacement as options and identifies the optimum long-term solution. Council reviews this Asset Management Policy (see A. 31) on a triennial basis. Other major elements are the Asset Management Strategy (see A. 16) which details specific actions to be undertaken by Council to improve asset management capability and achieve specific strategic objectives and the Asset Management Plans that are subsequent components where long-term plans (10 years and beyond) outline renewal requirements for each asset category.

8. Council Expenditure Review Project

In 2015, Council put forward a range of options for the community to consider to further cut costs and to raise revenue and sought feedback on those options (see A. 112). Council also invited residents to give their own proposals to achieve these outcomes. While a small percentage supported a proposed one-off 18% rate increase to address the funding issues immediately, most were against a rate increase of over 6%. The majority was also not willing to see a reduction in services but rather wished to give back the assets to the State Government that Council could not maintain.

The Council Expenditure Review Project (CERP) is the outcome of this consultation process and resultant feedback. Through the CERP, Council is working with both the community and the Victorian Government to return assets to either community or State Government management. While Council acknowledges this is a long term project, progress has been slow. Council has met with Department of Environment, Land, Water and Planning (DELWP) and the Department of Education and Training (DET) and Goulburn Murray Water (GMW) to advance this cost saving initiative but has met considerable resistance to transfer back of the relevant assets. Council is also talking to the community groups about how they might take on greater responsibility for the assets in their localities. Council's activities in this area are detailed further in the response to **Criterion 5**.

9. Meeting the rate cap

In seeking a variation to the cap, Council is wanting to preserve the continuity in implementing its long term financial plan which has been aimed at ensuring Council's longer term financial sustainability.

It is understood that the State Government's objective in implementing the rate capping framework is to promote greater operational efficiency in Local Government without affecting service delivery.

If Council is unsuccessful in seeking a variation to the rate cap for 2016/17, however, its compliance with a rate rise of 2.5% will compromise its long term financial planning and will require the removal of the annual allocation of revenue to support Council's future asset renewal requirements, which completely undermines Council's long term renewal strategy. It will also necessitate a reduction in service levels, (most likely involving a reduction in aquatic services within the Shire) without the opportunity to discuss service priorities fully with the community within the timelines made available by the State Government.

Council's challenge with meeting the rate cap in the long term is confirmed by Mark Davies in the summary of his report to Local Government Victoria stating,

> *"Under the current SRP which forecasts rate increases of 5.5% per annum falling to 4.0% by 2023-24, Council is able to fully fund the gifted asset costs and remain sustainable in the long term. However, under a rate capping environment it is unlikely that Council can fully fund the gifted asset costs and remain sustainable in the long term. Modelling of the current SRP at a flat rate increase of 2.5% per annum showed that Council was unsustainable in the long term as funding of the gifted asset renewal costs commence from 2020-21 onwards."* (page 9)

The full report provided to LGV by Mark Davies is attached (see B. CONF 17).

Part B – Response to Criteria

Criterion 1

The purpose of this criterion is to detail the magnitude of the rate increase being sought and the year(s) to which it will apply.

The requested rate increase being sought by Murrindindi Shire Council for 2016/2017 is 5.4%.

Although this application is restricted to being made for the 2016/17 financial year only, it should be noted that that Council's Long Term Financial Plan (see A. 91) forecasts a requirement for the rating increase to be above the current and assumed longer term rate cap level at 2.5%. As such the Plan illustrates that the loss of revenue for one year, with the imposition of a rate cap, would irrevocably compromise Council's longer term planning.

Criterion 2

The reason(s) for the proposed rate increase greater than the cap. The reason for the variation will need to be articulated clearly and the amounts involved will need to be quantified. Reasons could include: change in costs, a change in asset management, and a change in the services that councils are required to provide, or new projects (see section 4.4). These claims need to be substantiated.

The strategic basis behind Council's adopted Long Term Financial Plan (see A. 10) was established back in 2011/12 to address the financial consequences of the February 2009 bushfires that destroyed more than 40% of the Murrindindi Shire.

The circumstances affecting Council's future financial viability posed by the disaster included:

- A reduced ratebase following the loss of more than 1,700 properties in the 2009 fires and the 85 properties subsequently bought back by the State Government of Victoria under the Buy Back Scheme; and
- A substantial increase in annual expenditure to meet the ongoing costs associated with the operation, maintenance and renewal of new and gifted assets received by Council following the disaster reconstruction and recovery efforts.

Reduced Ratebase

Following the fires the Capital Improved Value ("CIV") of rateable assessments within the Shire declined by over $201 million, a 6.26% decrease at a time when Council's post-fires costs commenced their significant increase as discussed further throughout this submission. Council had just seen an increase in CIV levels across the Shire of 8.02% for the 2008/09 rating year, an indication of solid growth levels in the Shire at the time. The reduction in CIV was further exacerbated by the State Government Buyback Scheme that removed 85 properties from the ratebase or prohibited rebuilding.

The total value of CIV for rateable assessments within the Shire did not surpass the pre-bushfire levels of $3.216 billion until 2012/13, and remain substantially behind conservative projected growth figures that were utilised prior to the 2009 bushfires. A very conservative increase of 4% per annum in CIV levels since 2008/09 (which would allow for both new developments, capital improvements on properties and pricing increases) would have seen Council's CIV levels for 2015/16 equate to $4.23 billion, a level that is $330 million above the amount recorded in Council's current budget.

It is worth noting that rating revenue is the most significant component of Council's total revenue – 58.7% of Council's total budgeted revenue for 2015/16 is expected to come via rates revenue, with the long term financial plan forecasting that this level (approximately 60%) is to be maintained over the life of the Long Term Financial Plan. Council relies heavily on rating revenue and recurrent grant funding to deliver its service and asset management responsibilities. It has minimal other sources of income that larger Councils can rely on to potentially offset any loss of revenue relating to rate revenue shortfalls (eg. Parking fees, sport stadium fees, etc.).

Council does have a vision and strategies in place to encourage development and grow its rate base in order to support the provision of services and the growing need to fund the renewal costs of infrastructure.

Nevertheless with the above historical factors in mind, the imposition of the rate cap undermines the key assumptions contained within Council's current Long Term Financial Plan, and compromises Council's ongoing effort to establish a sustainable financial footing for the future.

Increased Costs

Following the February 2009 bushfires and the unprecedented level of donations to the Victorian Bushfire Appeal Fund (VBAF) the Victorian Government established the Victorian Bushfire Reconstruction and Recovery Authority (VBRRA) to administer the funds and co-ordinate much of the reconstruction and recovery.

This effort included a significant program of infrastructure works within Murrindindi Shire including buildings (community halls, youth spaces and community centres), recreational assets (sporting facilities, trails and open space areas) and bridges. The total amount of new and expanded assets gifted to Council as a consequence exceeded $33 million.

In aggregate, these new and gifted assets create a significant additional and ongoing financial burden for the Council.

This includes recurrent operational expenditure such as power, fuel, cleaning, staff, minor equipment, on-costs, utilities, insurance and routine inspections. It also includes regular preventative maintenance such as gutter cleaning, painting, pump servicing, essential services maintenance such as lighting and fire services as well as unscheduled emergency response for minor repairs.

Expenditure on an asset which is not recurrent and restores the original service potential or extends the life at the same level of service includes capital renewal occurring in the first ten years of an asset life. This relates to assets with a life above 1 year but less than 10 years which include plant and equipment, floor coverings, window furnishings, kitchen replacement, open space assets, court surface treatment, path/pavement renewal, etc.

The first KPMG report (2011, see B. CONF 1) detailed in the background paper was a high level report, based on planned project budgets, straight line depreciation and other benchmarked costs for maintenance, operations and renewal. Council officers then further analysed the high-level information, initially reviewed by KPMG (2012, see B. CONF 5), and in 2014 undertook an extensive and detailed assessment of all asset management implications on each of the new and expanded assets.

Subsequent to this, Council engaged an established building maintenance planning company (AssetLink) to review the building assets in the KPMG report and establish the required level of maintenance to keep the new assets available for the established level of service appropriate for that asset. An independent consultant (Neil Harris) was engaged to assess appropriate service levels and determine operational and maintenance costs for parks and gardens. Renewal costs for all assets were based on the useful life as straight line depreciation.

Council has also commissioned further independent analysis of the costs and methodology utilised (“the CT Management Group Report” see B.CONF 2 and B.CONF 3) to review this modelling which validated the modelling and associated assumptions.

A summary of these costs, and a comparison comparing them prior to the 2009 bushfires and after the gifted assets were received by Council is provided in the following table:

	Pre bushfires $/per annum	Post bushfires $/per annum	Increased cost to Council $/per annum post bushfires
Operating	495,974	1,204,476	708,502
Maintenance	195,139	552,545	357,406
Renewal	349,766	1,046,798	697,032
Total	**1,040,879**	**2,803,819**	**1,762,940**

Therefore, the additional liability is $17.62 million over 10 years ($1.762 million p.a.) for all assets including those identified in the KPMG report. Council received a payment from the Victorian State Government of $920,000 across the 2011/12 and 2012/13 financial years which was allocated to contribute to the immediate costs relating to operations and maintenance. The full breakdown of this across each asset that Council is responsible for operating, maintaining and renewing can be viewed at A. 114.

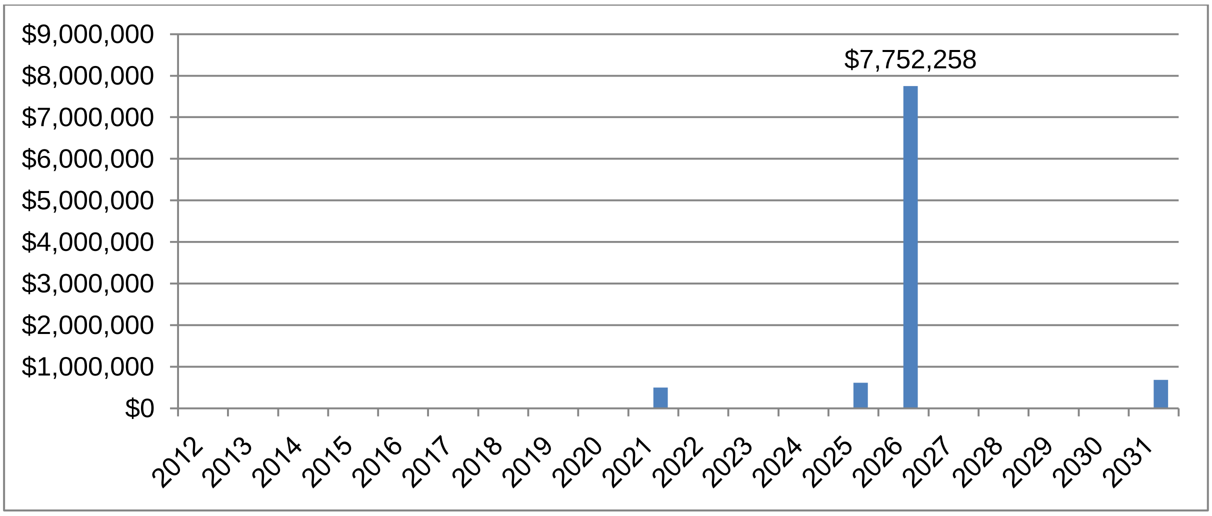
Council has undertaken extensive analysis of the costings and service level requirements of these assets, to ensure that its management of these assets as a part of its longer term financial planning framework is sound. As a result, Council's asset management knowledge now extends well beyond the 10 Years of the current LTFP and Council is able to better predict its estimated annual renewal cost requirements for these assets, as well as understand the liability that it must address with regard to these assets over their full asset lives.

As the $33m worth of assets were received virtually at the same time, this has the effect of causing renewal requirements to spike significantly in the years beyond Council's SRP & LTFP, as the estimated lifecycles of these new assets equate to assumed renewal schedules for like assets.

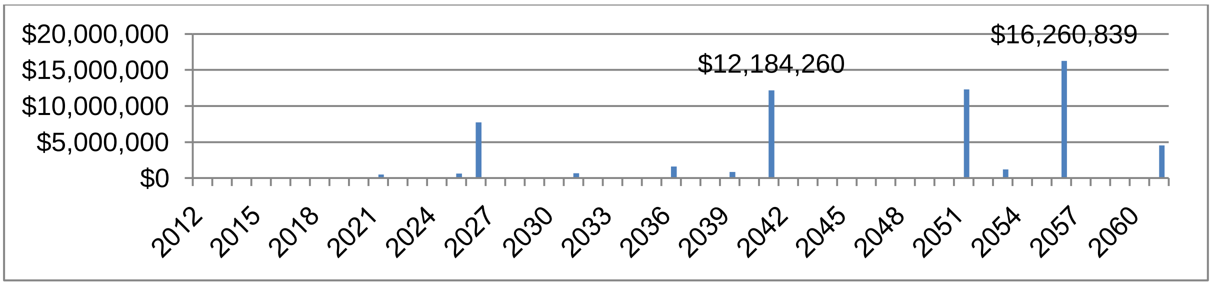
It is essential that provision is made for these costs now in addition to existing asset management liabilities, via the infrastructure renewal reserve, to ensure that Council is not faced with an unfunded burden in the years to come, when it will be unrealistic to raise the required revenue for renewal in a single financial year.

This renewal funding challenge is presented in the below graphs that highlight the renewal requirement for these assets in the coming 20 years, and then in the 50 years following the rebuild of the 2009 fires.

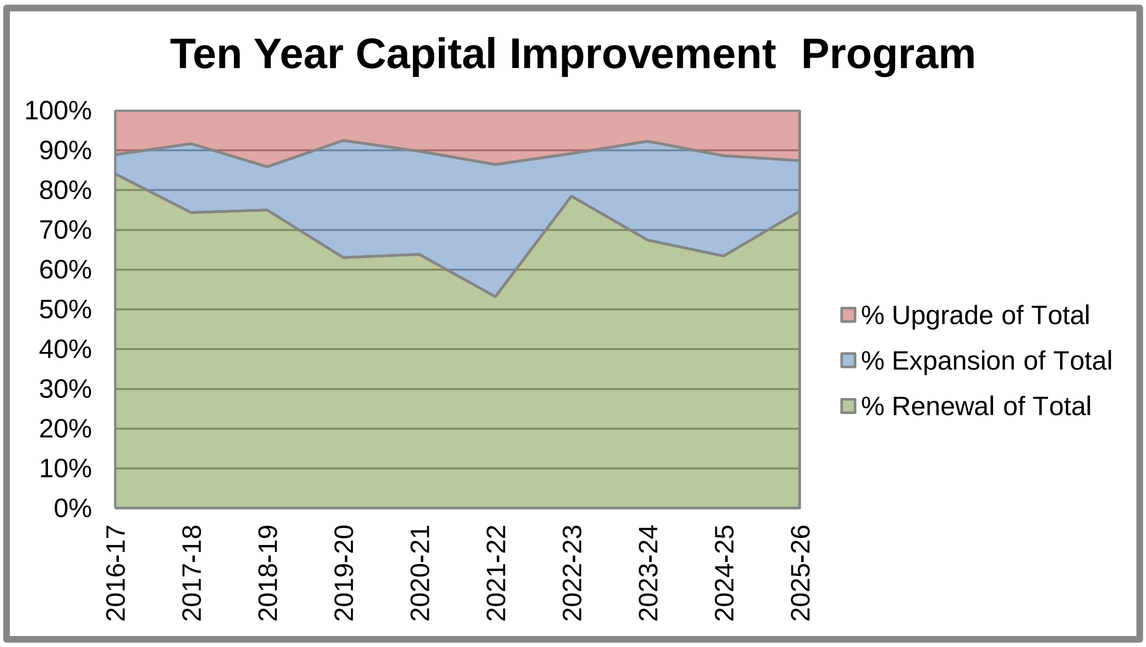
20 Year Renewal Requirements:



50 Year Renewal Requirements:



Council’s Infrastructure Renewal Gap (“IRG”) continues to grow despite allocation of the majority of its capital works budgets to renewal (84% of proposed 2016/17 capital works budget) in line with Council’s policy of renewal before expansion, upgrade or new assets. Council’s Ten Year Capital improvement Program does not include any expenditure for new works. The expenditure planned for upgrade and expansion in the next ten years is principally to meet statutory and regulatory requirements, as represented in the following graph.



By the year 2035 with an assumed imposed 2.5% rate cap, 19% of Council's assets will fall outside of intervention level, that is, no longer able to provide the required level of service. In monetary terms Council's predicted renewal gap in 2035 is projected to increase to more than $60M with a 2.5% rate cap.

Council's Response

In recognising this substantial and permanent change in financial circumstances post the 2009 bushfires, the Council conducted a comprehensive and independent Services Review in 2011/12 (see B. CONF 4 and A. 7a) which sought efficiencies in policies, service levels and staffing, organisational re-structure, and asset / property sales, as well as the increase of user fees and charges that relate to service provision.

This review was born out of Council's decision in May 2011 (see A. 7) to not only review Council's structure and service delivery model, but the establishment of an infrastructure renewal reserve sufficient to rectify the known and increasing infrastructure gap and provide for sustainable cash flow while limiting further rate increases in each of the following 10 years to 6% or less. This is discussed further in Council's response to **Criterion 4.**

This formed the basis of the extensive community consultation that was undertaken in the 2014/15 financial year with the ratepayers and residents of the Shire, as detailed further in the response to **Criterion 3**, where community feedback was sought on the approach to be taken by Council in managing its ongoing financial challenges.

The decision of Council in May 2011, in recognition of the significant reduction to projected future rating revenue and increasing expenditure obligations, formed the basis of the current Long Term Financial Plan, and the establishment of an infrastructure reserve to ensure that Council will be best placed to address its known and foreseeable asset renewal obligations in the coming years.

The imposition of a rate cap on Murrindindi Shire Council's forecast revenue is a substantial alteration to the existing long-term financial plan, which has been developed on the basis of ensuring sustainability into the longer term for both service delivery and asset management responsibilities, and has incorporated extensive community consultation over a number of years.

Council's budget (see A.89) was constructed based on the rate increase assumption that was detailed in the SRP and LTFP that was adopted by Council in June 2015, ie. 5.4% for 2016/17. The introduction of a rate cap of 2.5% therefore reduces Council's budgeted rate income for 2016/17 by $451,807. This loss cannot be simply borne by Council, without making any adjustments to Council's service levels, asset management responsibilities or other cost and revenue assumptions.

The financial strategy in Council's LTFP (see A. 91) involving successive years of rate rises above 2.5% ensures that the burden of funding renewal is spread equitably overtime thus avoiding sharp one-off rate increases at a single point in time to fund peak renewal periods, or a greater reliance on alternate funding sources in the future where the reliability of these sources is unknown (ie. Non-recurrent grant funding).

Although Council has shown a capacity and willingness to reduce the underlying increase in rates out to 2024/25, as detailed in the 2014/15 revision of its LTFP and SRP, with rate increases ultimately decreasing to 4.0% by this point in time, these assumptions made last financial year are now compromised by the final rate cap that has been chosen by the Minister.

As detailed in A. 102 the loss of revenue that will be felt by Council over the next 10 years when compared to its initial SRP and LTFP will be **$22.06 million**, if the current rate cap is assumed to be applied as a constant over the life of its LTFP.

Revenue loss of this magnitude over the next decade would not be able to be absorbed by Council's current financial structure and cash reserves, and would require further extensive review and community consultation to determine how Council would need to adapt to meet this new financial challenge. There has been insufficient time since the announcement of the rate cap level in December 2015 to undertake further detailed service and asset planning to consider these implications.

It is acknowledged also that Council's revenue in the years following the bushfires increased substantially, as Council received a significant volume of grant funds to manage the immediate aftermath, recovery and reconstruction period following the 2009 fires. It is also acknowledged that Council's total budgeted rating revenue increased by 7.76% in 2015/16 due to the expansion of Council's differential rating categories as a result of Council adopting its new Rating Strategy in March 2015. As detailed in Council's budget for 2015/16 this followed a period of extensive community consultation and was another initiative undertaken by Council to address its longer term financial challenges, whilst addressing the community's preference to keep the general rate rise limited to 6%.

If the requested variation to the rate cap for Murrindindi Shire Council for 2016/17 were denied, it would not cause the immediate financial collapse of Council, nor would it have immediate consequences for the viability of all services that Council is aiming to provide for the coming financial year in line with the community's expectations.

However, the denial of Council's requested variation would immediately compromise Council's Long Term Financial Plan, that has been developed and refined over a number of years, in close consultation with a community that is still recovering from Australia's worst ever natural disaster. Council would need to instigate some short-term cost saving initiatives through reduction of some services to offset the $450k loss of revenue that would be felt in the 2016/17 financial year, whilst going back to the community to seek their input as to what further and substantial changes in service delivery they are willing to accept in order to revise Council's LTFP by in excess of $22 million over the coming decade.

Criterion 3 - Engagement

Murrindindi Shire Council has communicated with and listened to ratepayers and the broader community in proposing a cap of 5.4% for 2016-17.

Council has been engaged in a long term and clear communication with the community about its funding situation.

Council has a good understanding of what the community wants. While confident that no community wants higher rates, the community has sent Council a number of clear messages about the future it wants for the Shire. This future includes financial sustainability and adequate service provision for the community. The community has also reacted very negatively to cuts to Council service levels which followed service reviews in recent years.

The discussion about the rate cap began in 2015, but the community has been aware of Council's commitment to keep rate increases to no more than 6% annually since 2011.

If Council is forced to work within a 2.5% rates cap it would undermine the strategic approach Council has taken to ensuring its long term financial sustainability.

Council is confident it has met (and exceeded) the principles set down by the ESC in engaging with the community about its needs and has done so over a period of years due to the Shire's unique circumstances, post the February 2009 Bushfires.

All Council media releases and other forms of public statement are, upon release, also listed on Council's website (www.murrindindi.vic.gov.au).[1]

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[1] Council has attached a list of the titles of the documents it has released to the public since 2010, see Appendix A. All public documents referred to in this submission have been included in the supporting document folder as part of this submission.

Principle 1: The engagement program must contain clear, accessible and comprehensive information and follow a timely process to engender feedback from the community

- Council has used multiple means at its disposal, including traditional print media, mailouts, social media, radio and national media (ABC) to expand the reach of our message throughout the Shire and beyond.

- Council provided FAQ sheets (see A. 58) explaining its funding situation, the options (including rate increases) under consideration to address this and about its ratings strategy.

- Council has published information in accessible format and has driven communications traffic to Council's website which is designed to ensure that it is compliant with worldwide standards for disability access. The site is W3C Level A compliant, with additional features from Level AA (current best practice standard). (To ensure Council is adopting best practice accessibility standards, it will shortly rollout a new website which is WCAG 2 AA compliant, which will further enhance accessibility of its information in future community engagement)

- Council has provided ample time, methods and means for the community to provide feedback and views on a range of issues, within the constraints on communication within the Shire outlined elsewhere in this submission.

Principle 2: The engagement program should be ongoing and tailored to community needs

Well before rate capping was proposed by the current State Government, Council was actively engaging the community of Murrindindi Shire on its specific funding situation and the question of rate rises. Council's community engagement policy, guidelines and toolkit (see A. 17 and A. 18) have assisted in ensuring community needs have been met throughout this process.

Council's engagement and communications with the community about its funding situation have been strategic in nature and enduring over time. Since 2010 Council has been talking with the community about the exceptional circumstances facing Council following the 2009 Bushfires and the ongoing funding challenges for Council arising from the gifting of $33 million in assets to Council to operate, insure, manage and renew.

Council's engagement program has been thorough and enduring and tailored to meet the needs of the community, within our resource constraints. Responding to a community satisfaction survey in which residents expressed the preference of receiving print media, Council undertook the expensive option of using a mailout to the community to discuss its funding situation in 2014.

Principle 3: The engagement program should prioritise matters of significance and impact

Council's engagement program has been locally-focused and specifically targeted matters of Shire-wide significance. This includes the Vision 2030 exercise, which determined the community's vision for the future of the Shire and priorities.

Council has been active in informing and engaging the community for several years about its funding situation, rating strategy and in seeking community feedback on options under consideration by Council.

Council has raised with the community the significant consequences for the Shire of the imposition of a rate cap of 2.5%

Principle 4: The engagement program should lead to communities becoming more informed about council decision making.

Despite ongoing challenges in extending the reach of Council's message throughout the Shire, the community has been kept well informed of Council's thinking and been invited to engage with Council in its decision making processes across a wide range of funding and rate-related issues.

The community is well aware of Council's funding situation and of Council's intention to seek a variation to the rate cap. Council has given the community multiple ways and means of interacting with Council in its decision making processes.

Principle 5: Council must develop a program of regular consultation with its community in relation to the services it provides

Council is active in engaging the community in regular consultation about a wide range of services it provides and about planning for the future of the Shire. Examples of major consultation initiatives undertaken within the last two years (excluding funding advocacy) include:

> ***Rating Strategy***
> Community and industry-body forums held to gain input into the Council's new Rating Strategy and the introduction of new differential rating categories
>
> ***Resilient Youth Project***
> Survey of all young people in the Shire (via schools) from Year 3 to 12 to obtain benchmark information and input into service initiatives to promote youth resilience
>
> ***Access and Inclusion Mobility Maps***
> Focused consultation forums held with disability service providers, people with disabilities and local trader groups to design mobility and access maps for the main towns within the Shire.

Major Land Use Planning Studies
Broad-based community consultation forums and focused stakeholder consultation sessions held to develop Structure Plans for Yea and Eildon townships, review development plans in Alexandra and prepare streetscape plans for communities of the Kinglake Ranges.

Municipal Emergency Relief and Recovery Planning
A complete review of the relief and recovery services and planning was undertaken involving public meetings, response agency group forums and special needs groups across the Shire.

Aged and Disability Services Review
Formation of client-based focus groups to advise on implications of potential service changes following restructuring of federal and stage government funding arrangements.

Bushfire Memorials Project (in progress)
Shire-wide community consultation and targeted engagement with community members, residents and the bereaved to consider format, location, and design of community memorials recognising the tragic impacts of the 2009 bushfires.

Development Services Stakeholder Forums
Stakeholder forums held across the Shire to seek feedback from developers, builders, local businesses, real estate agents with respect to continuously improving the value of Council's range of development-related services.

Principle 6: Council must report regularly to its community on its achievements in relation to the Best Value Principles set out under the Local Government Act (quality and cost standards; responsive to needs of community; accessible, continuous improvement).

Council reports regularly on its activities, achievements and performance through a variety of means that are accessible to the community.

Council delivers quarterly reporting on its progress and performance in achieving the goals, strategies and actions of the Council Plan 2013-2017, which is the key strategic planning document of Council.

Quarterly reporting is also provided on Council's financial performance in implementing its annual budget and in addressing the broader aims of the Long Term Financial Plan.

Council also releases quarterly reports on its progress in delivering its annual capital works program, from an operational project delivery and financial performance perspective.

Council is a participant in the Local Government Performance Reporting Framework instituted by the State Government which provides cost and quality indicators across a range of Council services. Via the ‘Know Your Council’ website this program enables comparisons by members of the public of Council’s performance overtime and with that of other like Councils.

Pre-rate capping consultation:

Council’s consultation with the community about its rates, services and the effect of new and gifted assets began in 2010.

2010

- Council discussed with the community its efforts to deal with the funding situation facing it, including the 2010 KPMG report commissioned to gain an understanding of recurrent whole-of-life costs arising from post-bushfire related rebuilding programs and the need for the community to appreciate the link between future recurrent costs and council rates.

2011

- Council spoke to the community about a decision to conduct a Services Review to measure the impacts of the new and gifted assets and identify efficiencies and savings to help Council meet these new costs.
- Council raised awareness of measures in its draft budget to cut costs

2012

Council resolved to implement a range of recommendations from the Services Review to help address Council’s funding shortfall which resulted from post-bushfire reconstruction. Consultation with the community on the Services Review included:

- Letter to all residents and property owners in the municipality including a brochure providing an overview of the services review report and information about the community information sessions.
- Preparation of a Summary of the Services Review report which was posted on Council’s website
- Preparation of media releases and responses to media questions about the Services Review.
- Advertisements in local media advising of the Services Review.
- Preparation of information bulletins for the community information sessions.
- Preparation of feedback forms for the Kinglake and Marysville information sessions and, subsequently, forms for Alexandra and Yea offices.
- Meetings and responses sent to interested community organisations.
- Meetings with individual residents on request.

Council also discussed with the community the visit by then Local Government Minister Jeanette Powell to continue advocacy regarding the challenges faced by Council and the measures Council was taking to address its funding situation

Council also commenced a major community consultation entitled 'Murrindindi 2030 Vision' to start the conversation with the community about how it wanted the Shire to look in the future.

2013

Following Council elections in October 2012, the new Council gave its initial focus to the development of a new Council Plan 2013-2017, which provides the strategic foundations for many of the current initiatives aimed at addressing Council's longer term financial challenges, including advocacy for assistance from the State Government.

Five community consultation meetings were held across the Shire to enable the community to provide feedback on the strategies and initiatives in the draft Plan and the Council's approach to addressing its longer term financial sustainability needs.

Media releases and advertisements were placed explaining the content of the Council Plan 2013-2017 and the annual budget 2013/14 and inviting submissions.

2014

The Murrindindi 2030 Vision Statement was adopted by Council in 2014 following broad community consultation. The Vision for the Shire which was generated by the community and endorsed by Council was as follows:

"We are sustainable, vibrant and resilient. We focus on growing our business opportunities. Our communities are safe and connected, enjoying a healthy and productive lifestyle within our wonderful natural environment."

This vision was inspired by Community Workshops and a Community Survey that was completed by around 300 residents. The 2030 Vision describes the attributes and values that our community sees as important in shaping our future in terms of our community, the place in which we live and the opportunity available. The full vision statement is attached at A. 111.

Funding Advocacy Campaign

Following advice to Council in mid 2014 from the former Minister for Local Government that Council would not receive any further assistance to help manage the costs associated with the new and gifted assets, Council embarked on a community engagement campaign from August 2014 - October 2014 to determine how Council could best maintain its financial sustainability and the values articulated in its Vision through its funding advocacy consultation.

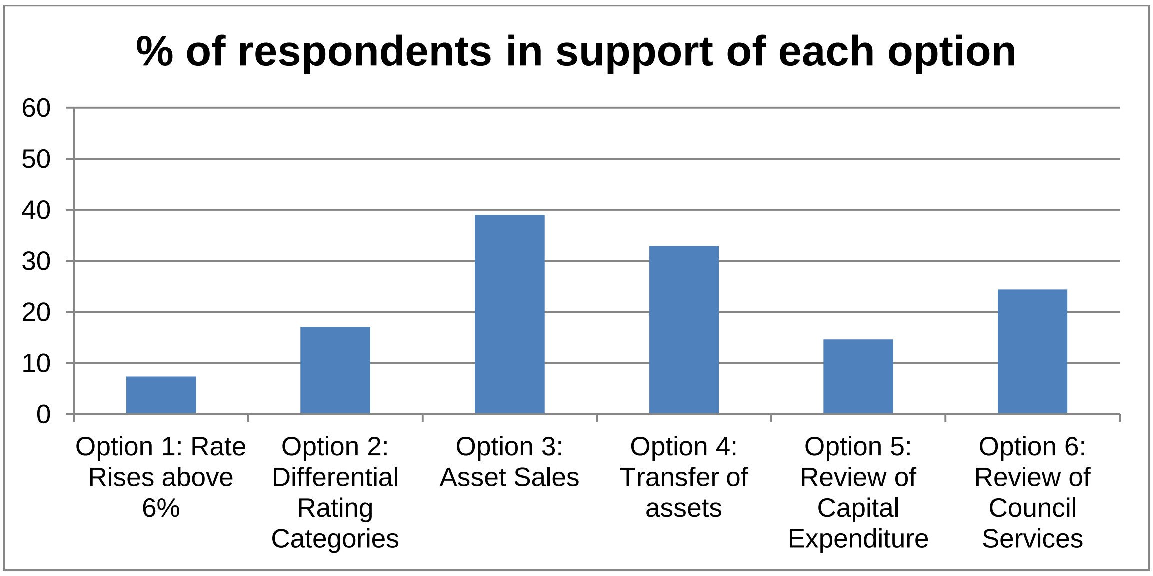
The funding advocacy project discussed with the community the range of options facing Council if it is to deal with its funding shortfall and sought community input into that decision making process. The six options under consideration were:

(1) rate rises above Council's current forecasts in its Long Term Financial Plan[2],
(2) differential rating categories
(3) asset sales
(4) transfer of assets
(5) review of capital expenditure
(6) review of the services Council provides to the community.

- In August 2014, the Mayor wrote to all ratepayers (approx 9,500 letters) outlining the funding challenges facing Council and the proposed 6 options Council would consider to address this challenge. In the letter, the Mayor asked for feedback and for new ideas from the community.
- Council communicated its campaign via mailout to all residents, print and radio media and via a dedicated Facebook page.
- Council put all information relating to the issue, along with all a detailed 'Frequently Asked Questions' information sheet, related media and communication from Council, on its website. Council created a dedicated Facebook 'Funding Advocacy' page which asked the community to provide its feedback and to tell us its preferences.
- Council provided a number of means by which the community could provide its feedback (website, phone, email, Facebook page) and encouraged people to talk to Councillors directly.

Council received 175 responses following the mailout from community members, via email, online forms, phone calls, letters, Facebook comments and letters to the media. As shown overleaf there was a clear lack of support for rate increase above that of the planned 6% annual increase (7% support), with most of the favourable preferences supporting the sale of Council assets 39%, handing back assets that Council maintains but does not own 33% and reviewing council services 24%.

[2] Option 1 explained the option of a rate rise as follows: "*A recent survey of small rural shires shows that the average increase for council rates in 2014-15 is 5%. This is substantial and is occurring in shires which are not dealing with the consequences of a massive natural disaster. One strategy would be to increase rates to approximately 8% each year until 2023/24. This would result in Council raising the funds for servicing and renewal of the gifted assets. A second strategy would be to implement a significant rate rise in 2015/16 of approximately 18%, before reducing back to 6% for every year to 2023/24. This would generate around the same amount of additional rates over the next 10 years.*" The full document can be viewed at A. 112.



Respondents were able to 'vote' for more than one option

After receiving this feedback, Council reiterated its prior commitment to keep rate increases to no more than 6% per annum and to focus on a mix of other options to address funding issues. This decision was communicated to the community in the months following the campaign (see A. 77, A. 78 and A. 81).

2015

The community feedback from the Funding Advocacy engagement campaign determined Council priorities for community ownership, the retiring/returning of assets to the authorities that own them and community's views of rate rises. This in turn informed Council's Expenditure Review Project (CERP) aimed at reducing costs and growing revenue.
After considering the feedback from the Funding Advocacy consultation in 2014, Council

- Adopted a revised Rating Strategy in March 2015 (see A. 83 and A. 84), following a further series of consultations and meetings with local groups most affected by the Strategy (businesses, farmers) to discuss the introduction of two proposed new differential rating categories. Council discussed the draft Strategy on local radio and issued media releases about the proposed changes to Council's rating structure.
- Wrote to community organisations that manage Council and Crown assets to communicate actions that would result from this project.
- Council has also been working with State government and other authorities to action these items, including meetings with Department of Environment, Land, Water and Planning, Department of Health and Human Services, Department of Education and Training, Goulburn Murray Water and Parks Victoria.
- Council has written to and met a range of community groups and committees to advance the goal of transferring responsibility for management and maintenance of community assets to them.

While Council has implemented a number of the alternative options put to the community, some have met with limited success – for example, Council has met considerable resistance to Option 4. Others will take some time to implement or to take effect in funding terms.

Council continues to prioritise continuous improvement in all aspects of how it conducts its business, as set in the Council Plan 2013-2017 Strategy to continue to improve our processes to enhance efficiency and effectiveness of the organisation.

In recognition of the work Council did with the community in its Funding Advocacy and CERP initiatives, Council was chosen as one of five finalists in the 2015 John Jago 'Good Governance Awards' (see A. 99) hosted by the Victorian Local Governance Association. While it didn't win first place, it was presented with the 'Highly Commended Award' along with Ballarat City Council.

In 2015, Council also produced an Advocacy document, outlining the situation facing Council for use in its discussions with governments and other stakeholders (see A. 100).

Rate capping announcement

Council had been discussing the prospect of rate capping with the community after it had first been raised by the new government, in the context of Council's ongoing funding situation. Council specifically discussed rate capping with the community in May 2015, during the Essential Services Commission's consultation period.

Council's conversation with the community continued throughout the remainder of the year, with multiple media releases issued dealing specifically with rate capping (see A. 90, A. 92, A. 94, A. 95, A. 96, A. 101, A. 103, A. 104, A. 105, A. 106, A. 107, A. 108) and a large number of local and regional radio spots where Councillors and Council officers have discussed with the community Council's long term financial strategy with the community and the impact of a CPI-linked rate cap on Council's long term sustainability and the services it is able to deliver.

Before Council's formal consideration of whether to seek a variation to the rate cap, Council communicated with the community through media releases and weekly Mayoral and Councillor columns in the local papers and through weekly radio spots on a number of regional radio outlets. This media activity discussed with the community the effect rate capping would have on Council's ability to provide important services and to provide support for existing assets and infrastructure.

Following the State Government's decision to impose a rate cap of 2.5% on 22 December 2015, Council has continued this discussion with the community. Council also discussed with the community its decision in January 2016 to seek a rate cap variation and its decision in February to seek a rate cap variation of 5.4%.

Every week in 2016, Councillors and Council officers have discussed with the community either via print media or local radio, the implications of the imposition of a rate cap variation on Council's long term financial planning and on the level of service it offers to the community. In addition, there are frequent spontaneous and ad hoc discussions between Councillors and members of the community.

Council believes it has a clear understanding of the community's views regarding the need to ensure rates are not increased over Council's commitment to rises of no more than 6%. Council actively engaged the community by seeking its views on the comparative merits of different options for addressing the funding situation.

Council's position has been subject of vigorous debate, including in the local media. The fact the ESC has received submissions from the Murrindindi Shire community about Council's decision to apply for a rate cap variation attests to widespread awareness within the community.

Council notes in this regard that it has achieved this despite the resource, infrastructure and other limits on quick and easy communication with the community in the Shire referred to in the background of this submission.

Criterion 4

How the higher cap is an efficient use of council resources and represents value for money.

In recognition of the significant financial impacts of the 2009 bushfires on Council's longer term financial sustainability and the need for strategic intervention, the Council in May 2011 passed a water-shed resolution which set the strategic focus for the proceeding years on increasing organisational efficiencies and maximising the value of funds raised, as follows:

"In addition to continuing to advocate for additional Federal and State Government funding assistance, the CEO, by 31 October 2011, is to report on options for asset sales, policy changes, operating efficiencies, staff reductions, changes in fees and charges and changes in services, that will ensure the establishment of an infrastructure renewal reserve sufficient to rectify the current infrastructure gap and provide a sustainable cash flow while limiting further rate increases in each of the following 10 years to 6% or less"

The setting of this direction resulted in a significant <u>review of Council services</u> and operations to maximise efficiencies and organisational savings which has continued to the present day.

Based on best value principles these reviews have to varying levels encompassed service mapping and process improvement, benchmarking with like councils, community and/or service user consultation, financial modelling, organisational restructuring and reduction in staffing levels and outsourcing where financially justified.

Between 2012 and 2015 a total of 11 major service reviews have been undertaken as follows:

August 2012 - Economic Development Service Review (see B.CONF 6)

The review involved a reduction of non-essential services and functions undertaken and reprioritisation of core activities to better align with industry stakeholder needs. The review involved a commensurate reduction in staffing levels, resulting in annual operational savings $201,000.

August 2012 - Library Service Review (see B.CONF 8)

The review involved a re-structure of library operations to minimise the number of staff hours spent away from the public area. This included reduction in management and central office hours, decentralisation of some duties to branches and outsourcing of book selection, cataloguing and processing tasks. The review provided recurrent operational savings of approximately $50,000 and savings of $31,000 per annum in capital book stock purchases.

September 2012 - Community Services Review (see B.CONF 9)

This review identified service and operational efficiencies across a range of community services including recreation and aquatic services, home based child care, maternal and child health services, and aged and disability services identified total recurrent operational savings of $142,000.

August 2012 – March 2013 - Parks and Gardens & Infrastructure Operations Service Reviews (see B.CONF 7, B.CONF 10 and B.CONF 11)

Two associated service reviews were conducted to coincide with a significant reduction in temporary staffing levels associated with the cessation of infrastructure-related bushfire recovery functions. A realignment of management and co-ordination roles across parks & gardens and infrastructure maintenance functions resulted in the reduction of 5 equivalent full time positions, achieving a target set by council for a $300,000 reduction in the annual budget for these areas.

These reviews also coincided with the cessation of private works and construction activities previously performed under a separate Council business arm, Murrindindi Construction. This created further operational efficiencies with the removal of duplication of business functions necessary for the maintenance of a client/provider split in the organisation.

April 2013 - Corporate Services and Finance Services Reviews (see B.CONF 12 and B.CONF 13)

Two associated reviews into Council's delivery of corporate services and financial services involved considerable benchmarking with like Councils across a range of functional areas including records management, Information technology, governance, procurement, administration, financial & management accounting, rates & valuations, payroll and accounts payable/receivable. The review focused on cross-functional multi skilling in order to create efficiencies and resulted in a restructure of the two units with associated reduction in staffing levels enabling overall annual savings to council of $158,000 ($81,000 Corporate services and $77,400 Financial Services).

June 2013 - Waste Management Review (see B.CONF 14)

This review identified a range of efficiencies in operations and reductions in labour costs associated with bin shifting and response maintenance at Resource Recovery Centres and decreases in plant costs associated with the service. Recurrent operational savings from this review totalled $31,000.

June 2013 – Review of Infrastructure Assets

In managing its current infrastructure gap Council is constantly reviewing its structure and methods of delivering its capital works program. Restructures in 2013 involved a rationalisation of staff numbers and the consolidation of capital works delivery, asset management and maintenance. This involved annual recurrent savings to Council of approximately $90,000 and ensured a correct balance between renewal and maintenance expenditure and a targeted allocation of available funding to effectively address the renewal gap.

More recently Council has introduced a more strategic approach to the ongoing renewal of its extensive road network. Combining asset degradation modelling with onsite inspections and careful planning to produce larger consolidated packages of works which has produced significant efficiency and reducing costs. This, combined with introduction of innovative and cutting edge engineering techniques, materials and equipment along with selecting the most effective procurement methods is providing improved value for money Council and ratepayers.

July 2014 - Quarry Service Review (see B.CONF 15)

Review resulted in a rationalisation of Council's quarry operations and transfer of business operations to a third party resulting in one off sale proceeds of $375,000, plus recurrent operational savings of $21,000 per annum. Also these changes significantly reduced Council's risk exposure to blasting and drilling operations and avoided future planned Council investment in renewal of plant (additional saving estimated $250,000).

May 2015 - Review of Roads and Parks Maintenance Service Levels (see B.CONF 16)

This review built upon the work undertaken in 2012/2013 involving improvements to management and work practices to ensure the services provide best value. These include the development of an operational service plan to ensure operational intervention levels are realistically contained to available resourcing, implementation of a quality management system for parks and gardens activities to provide greater consistency in service delivery standards across the Shire, improved rotational (and geographical) works programs and rostering to improve operational efficiencies and maximise value in resource utilisation.

May 2015 - Organisational Structure Review – Infrastructure and Development Services (see B.CONF 18)

In response to the strategic direction of Council to promote economic development, land development and growth in the Shire, a structural review was undertaken to better align Council's economic development, development approvals and infrastructure development services. The review focused on improving co-ordination and integration of development-related functions, increasing ease and efficiency for developers and facilitating new development. Whilst not designed to achieve financial savings to Council the re-structure aims to improve the quality and efficiency of these Council services and implement Council's strategic direction.

May 2015 - Organisational Structure Review – Business Services (see B.CONF 18)

An internal structural review of Council's Business Services identified opportunities to improve integration and efficiencies across key corporate functions. This included aligning strategic risk management, procurement and insurance functions, strengthening governance administration, and improving co-ordination between health and safety and return to work functions. This re-structure involved a more effective use of existing resources to provide better value to the organisation.

November 2015 - Aged and Disability Service Review (see B.CONF 19)

This review was undertaken to ensure Council is best placed to adapt to the significant restructuring in the provision of State and Commonwealth funding for aged and disability services. A number of operational efficiencies and savings were identified as part of the review which are currently being implemented or further investigated including realignment of service plans to better reflect client needs (achieved operational savings of $80,000 in 2015/16), outsourcing of home maintenance services and reviewing staffing classifications and travel allowances (anticipated savings totalling $112,500).

In addition to these service reviews a range of organisational-wide managed efficiencies estimated to total $613,000 were identified and implemented progressively from 2012 targeting the following areas: overtime and travel reimbursement savings, rationalisation of mobile device use and charges, streamlining insurance coverage, transition from paper-based to electronic document management, and use of aggregated procurement contracts.

Council has also taken advantage of shared services opportunities to either capitalise on economies of scale, increase efficiencies or increase revenue opportunities. Examples include sharing building surveyor services with Mansfield Shire Council, sharing resources to strengthen emergency management preparedness with Mitchell Shire Council, participation in MAV group procurement tenders for electricity, bulk fuel and insurance services, regional group tendering for kerbside waste and recycling services, and participation in the North East Regional Development Scheme for staff training and learning initiatives.

Another key outcome of the Council's resolution of May 2011 that changed Council's approach to asset management was the establishment of the infrastructure assets renewal reserve which will enable the drawdown of funds when and as required to meet known future building renewal requirements in a way that maximises the efficient use of resources to extend, as far as practicable, the useful life of Council's assets portfolio. This is discussed further in **Criterion 6.**

The 2012 Review undertaken by KPMG included a risk assessment and financial modelling analysis which sought to interpret the ongoing financial liability of the gifted assets which Council is now required to operate, maintain and renew at substantially higher cost levels than prior to the 2009 bushfires as detailed in **Criterion 2**. The KPMG analysis focused on the *additional costs* incurred by Council in relation to gifted assets and considered recurrent costs associated with the ongoing management and renewal of the assets over the coming decade whilst Council's ratebase was given time to recover to levels prior to the disaster.

As part of this report, KPMG made recommendations for addressing the viability of Council's longer term financial position and for advocacy to the State Government for additional financial assistance over the coming decade.

From the KPMG analysis it was recommended that an upfront payment of $14.1M be sought from the State Government to support Council over the following 10 years in meeting its asset management and ongoing service delivery requirements.

This option formed the basis of Council's current financial plan from 2012/13 through the current financial year as well as its core advocacy program to the last two State Governments, seeking ongoing financial support for the community of the Murrindindi Shire in the wake of Australia's largest natural disaster.

As highlighted in Council's consultation program of 2014/15 and ultimately reflected in the current SRP, Council indicated a range of potential measures that would be explored in the absence of additional financial assistance, which the State Government confirmed to Council in June 2014 as not forthcoming. These included increasing rate levels, the introduction of new differential rates, the transfer, closure or sale of assets, and reductions in services.

Council worked extensively to engage the community in prioritising this range of options since July 2014. The valuable feedback in relation to the mix of options that the community would prefer Council to pursue has informed the direction and the actions in the Council Plan 2013-2017.

These actions have been identified as the best value options in relation to financial responsibility, resource use efficiency and responsible forward planning and provide a framework for a more sustainable Strategic Resource Plan and the development of responsible and accountable annual budgets.

These actions are further elaborated in Council's response to **Criterion 5**.

Criterion 5

The purpose of this criterion is for councils to demonstrate that they have considered the prioritisation of services and different funding options before seeking a higher cap. This criterion requires councils to demonstrate that the decision-making that led to the application for a higher cap included consideration of other feasible options.

The ESC requires that Council might pursue one or more of the following strategies:

a. Scrutinising the full suite of their operations and planned investments
b. Re-examining whether the range of services and service standards align with the community's highest priorities
c. Assessing the merits of alternative funding or financing options
d. Considering increasing revenues through higher rates and charges.

Council has pursued all avenues for alternative funding sources and reductions in expenditure since 2011 and not solely in response to the introduction of the rate cap. Council's approach to the new rate cap is also cognisant of the Minister's declaration that "the introduction of a rate cap was not about cutting jobs and services."

As detailed previously, the organisational-wide services review undertaken by Council in 2011/12 commenced a process to identify alternative funding sources and the reduction of expenditure, principles that have been continually addressed through numerous actions taken by Council since this time.

The different funding options and service prioritisation areas that have been continuously reviewed by Council and incorporated into Council's Long-Term Financial Plan are as follows:

Rating Strategy Review (see A. 84)

Council adopted a new rating strategy in March 2015, following extensive community consultation and feedback. The key impacts of the introduction of this new strategy saw a broadened range of differential rating categories introduced, as well as Council's commitment to a ratings structure that includes a municipal charge as well as a services charge for the provision of waste services.

Advocacy Program (see A. 112)

Council maintained an extensive advocacy program for a more sustainable funding model in relation to costs and lost revenue associated with the impacts of the 2009 bushfires, as highlighted previously in the period up until June 2014 decision by the former Minister for Local Government.

This compensation package sought a payment of $14.1 million from the Victorian government which was declined by the previous Minister for Local Government who advised that Council should instead apply for grants. Unfortunately grant funding is not available to provide compensation for the loss of rate revenue for properties that were bought back by the State Government following the 2009 fires, nor for the loss of revenue that continues to be sustained from properties that were destroyed in 2009 that are yet to be rebuilt.

Similarly grants do not cover the ongoing operating and maintenance costs associated with the new and expanded assets that were gifted to Council following the 2009 fires.

Non-recurrent Grants

One position within Council that has been introduced and expanded since the 2009 bushfires is that of the role of Grants Co-ordinator. This part time position has been introduced to assist all areas of Council in sourcing new grant funding opportunities and to assist in the development of submission documentation and grant administration to ensure Council has a greater chance of attracting these funding opportunities when they become available.

Recent successful applications include the provision of grant funds that have enabled the upgrade of the community swimming pool in Yea. Grant funding has also been sourced to allow for the provision of backup generators at Council's library sites and for improvements to the Yea Saleyards, both projects that will address known risks and improved the long-term viability and sustainability of these services to the community.

Nevertheless as mentioned in the Part A: Background Paper there are limitations with respect to the use of non-recurrent grants as a means of bolstering Council's financial sustainability as follows:,

- Non-recurrent grant funding is often won through a competitive process and is therefore an uncertain funding source, particularly for a small rural council if bidding against better-resourced councils.
- The lack of certainty with non-recurrent grant funds from year to year makes planning strategically difficult. Non-recurrent grant funding imposes particular constraints on small rural councils which, given limited resources, must plan strategically.

- Non-recurrent grant funding also makes community engagement challenging, as grants often become available with short application periods and don't necessarily accord easily with budget and capital works cycles.
- Non-recurrent grant funding applications are also an additional impost on the limited resources of small rural councils.
- Non-recurrent grants are often only offered for new projects or projects which are likely to be 'launched', not for the renewal of existing infrastructure or for the continued provision of services. Council's funding situation means Council is not proposing to undertake new projects within the Shire.
- New projects also mean new and recurring maintenance, insurance and renewal costs, and this is another reason why Council is reluctant to initiate such projects in its current funding situation.
- Many non-recurrent grants require a funding contribution from Council - Council's funding situation would be further inhibited by the rate cap, which means it will generally not be in a position to initiate projects where it must also make a contribution. This will further reduce sources of grant funding available to Council and in turn inhibiting Council's growth strategy which is aimed at reducing the ratebase so that we can progressively rate increase.

Fees & Charges Review

As discussed earlier in this report, Council undertook a comprehensive benchmarking exercise following the 2011/12 Services Review (see B. CONF 4 and A. 7a) across all user fees that Council has the capacity to control (ie. Excluding statutory fees that generally increase at approx. 2% per annum), to ensure they were appropriate and comparable to other providers in the marketplace. This resulted in an average 10% increase across the range of discretionary charges.

Full reviews of fees and charges are now undertaken on an annual basis and attempts to ensure as much cost recovery as possible for these service areas without creating a cost burden that would discourage the community from abandoning its usage of the service.

Debt Strategy

Council has also reviewed its current borrowings strategy, and does so as a part of its budget and long term financial preparation each year. As a significant proportion of Council's current rate increases are aligned to the generation of Council's infrastructure renewal reserve, the re-funding of this initiative via debt would not represent sound financial management. Increasing borrowings to fund this reserve would not be cost effective as the cost of borrowings is currently approximately 5% whereas the income that Council receives from investments is currently approximately 3%.

The debt that Council does undertake is primarily focused on addressing intergenerational equity, ensuring that successive generations and new residents contribute to infrastructure or facilities that they will enjoy and benefit from. By borrowing, the Council ensures today's ratepayers are not fully funding these facilities. If Council was to borrow too heavily it would result in an inability to invest in capital works due to funds being consumed in debt repayment.

Utilisation of cash reserves

As discussed previously, one of the key outcomes of the internal and external reviews undertaken of Council's financial position following the 2009 bushfires was the establishment of a reserve to address future renewal expenditure associated with the increase in assets under Council's direct ownership or management.

The establishment of this reserve, which was to be funded by one-third of the annual ratings increase over the coming decade following its institution, was to maximise the liquidity of Council and to provide security to future generations that Council was appropriately preparing for known costs that it would be facing in the years to come.

Council also utilises cash reserves for other distinct areas of its operation where there is a direct ability to recognise revenue generated and surpluses gained from the operation of particular assets or facilities. Examples of these reserves include the provision of waste services, caravan parks and the Yea Saleyards. These reserves ensure that rates revenue is not required to fund the provision of these services, and that their financial sustainability is ensured through careful management of the revenue associated with these facilities in line with their costs and future renewal.

Further Initiatives

Council in 2015 adopted the principles of the Council Expenditure Review Project ("CERP"). This has received acknowledgement of the John Jago Award for community engagement from the VLGA (see A. 99). This project highlighted the further opportunities that exist to enable Council to manage its current and future costs and asset management responsibilities as follows:

1. The consideration of new differential rating categories, following community consultation.

   Council's revised Rating Strategy was adopted in March 2015 which introduced two new differential rating categories (commercial and vacant land), to provide an improved and more equitable rating structure to support Council's future financial objectives.

2. The reduction of financial support for a range of assets by transferring support for those assets for which Council has no responsibility to their own responsible body, and the sale of appropriate assets.

Council has to date embarked on a range of meetings with representatives of various government departments and agencies to consider the handing back of assets not owned, but maintained by Council. To date this has included the following:

- Handing back responsibility for public housing in Yea and Alexandra (Department of Health and Human Services),
- Formation of a working group with officers from Department of Environment, Land Water and Planning (DEWLP) to consider handing back responsibility for community facilities (parks, Halls etc.),
- Handing back management of the Department of Education and Training owned Yea Sports Centre to the Yea High School and discussions concerning reducing Council's future roles with similar facilities at Alexandra and Eildon
- Discussion with Goulburn Murray Water to consider future arrangements for management and maintenance of community assets on its land
- Discussions with Parks Victoria in terms of its future interest in the Council owned former Kinglake Rebuilding Advisory Centre.

3. Engaging with community groups and committees to transfer responsibility for managing and maintaining community assets in order to provide the community with a greater say in how these assets are managed into the future.

   Council has commenced discussions with community groups with respect to their capacity to take on more management responsibilities of community-run facilities.

4. The development of a policy on asset renewal which identifies the standards for asset renewal that ensure the level of service provided is appropriate to requirements.

   It is acknowledged that in many cases the gifted assets are in excess of those that would normally be required and funded for communities of the sizes in which these assets are located. In addition, there may be some assets that should not be renewed.

   It is therefore appropriate that as part of the policy, the level of renewal funding should be reviewed and adjusted where appropriate. This policy is currently under development.

5. Continuous improvement in Council operations (addressed in **Criterion 4**)

Council also has an ongoing program to review its asset base and identify the sale of Council facilities and assets that are underutilised or surplus to needs

Criterion 6

The ESC requires Councils to demonstrate 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

The rationale for this application for a variation to the rate cap, to secure Council's longer term financial viability, is consistent with the key strategic planning document of Council, the Council Plan 2013-2017.

In introducing Council's Goals and Strategic Objectives this Plan states that in the absence of further financial assistance from the State Government Council's priorities will be primarily directed towards growing its rate base, supporting economic development and developing financial strategies that strengthen Council's long term financial position.

In taking a responsible approach in meeting its financial challenges the Plan places specific emphasis on working to reduce costs associated with the operation, maintenance and renewal of its assets. To this end the Plan foreshadows a range of strategies and actions including, seeking greater community involvement in maintaining community facilities, disposing of under-utilised land and buildings, limiting council's maintenance activities to these assets Council owns or directly manages and reviewing the levels to which assets are maintained and renewed.

As previously indicated, the Strategic Resource Plan 2013-2017 which supports the delivery of the Council Plan 2013-2017 is based on a commitment to the community not to increase rates by greater than 6% per annum over the 10 year life of the Plan. The delivery of the Council Plan strategies indicated above will see a steady decline in overall annual rate rise to 4% by 2023-2024. This level of annual rating increases is critical to securing the capacity of Council to meet its longer term asset renewal requirements, whilst also meeting the community's expectations, as far as possible, for the maintenance of service provision across the Shire.

Since the occurrence of the bushfires of 2009, Council has observed the following principles in the preparation of its Strategic Resource Plan to ensure that Council's resources are appropriately applied and continue to represent value for money for all ratepayers and residents.

These key principles are:

- Maintain the existing range of service provision consistent with the Services Review that was conducted in 2011-12;
- Maintain a strong cash position, ensuring Council remains financially sustainable in the long-term;
- Aim for long term operating statement surpluses with the exclusion of all non- operational items such as granted assets and capital income (underlying result);
- Maintain debt levels below prudential guidelines based on compliance with the State Government Prudential Guidelines and ensure borrowings are applied to capital projects that provide intergenerational equity.
- Making provisions for the renewal of assets (ie addressing the renewal gap) as identified as a key requirement of Local Government by the Victorian Auditor General's Report (see A. 34).
- Continue to pursue recurrent grant funding for strategic capital funds from the state and federal government;
- Undertake advocacy to the Victorian State Government to ensure it receives long term financial support to address the legacy which it faces as a result of the additional cost to operate, maintain and renew new and gifted assets as a result of the 2009 bushfire recovery and reconstruction.
- Provide for rate increases that establish a long term sustainable funding level for capital works (asset renewal, expansion, upgrade) and asset maintenance; and
- Ensure critical renewal is funded annually over the timeframe of the SRP.
- Maintain discretionary reserves for stand-alone operations (eg. Waste services, caravan parks and the saleyards) or investments.
- Continue to benchmark with other Victorian councils and those within the Small Shire category.
- Apply the outcomes of the SRP to the annual budget process.

By adhering to these principles, Council is able to ensure that the fundamentals of sound financial management as described in Section 136 of the Local Government Act are applied, particularly with regard to managing the financial risks faced by Council and that decisions are made and actions are taken with regard to their financial effect on future generations.

Council's approach to the funding of its asset management and renewal requirements is also underpinned by a robust asset management framework that ensures that Council has maintained a strong performance as an asset manager of public infrastructure in recent years, in particular since incorporating the asset management practices in 2005 by participating in the MAV STEP program. This is when documented renewal modelling of its assets began using the Moloney modelling system to feed into long term financial planning.

It is by utilising this methodology that Council has been able to prepare accurate projections related to its current and future asset management responsibilities, that has allowed it to prepare longer term asset management and financial projections that have underlined the current Council Plan, Strategic Resource Plan and Long Term Financial Plan.

Council's approach to asset management is strategically linked between the development of the Council Plan and Strategic Resource Plan which underpinned the adoption of Council's

Asset Management Strategy in 2012. This Strategy details that in order to deliver a variety of services to the community, Murrindindi Shire Council must ensure that the assets supporting these services are managed in a sustainable way over the long term.

Supporting this Strategy has been the development of Asset Management Plans for all asset classes, which then incorporates the key data into Council's asset management systems and Moloney modelling system to enable longer term review and analysis of Council's requirements for its assets.

Council has also done considerable work on recognising ownership of its assets implementing maintenance agreements and determining service levels in this process.

Recognition of Council's performance in this area was received when Murrindindi Shire Council was one of the first small rural councils in Victoria to achieve core competency under the National Asset Management Framework (NAMAF).

Council's ongoing commitment to work with community groups regarding the importance and ultimate responsibility of various components of the public infrastructure under Council's ownership or management under Council's CERP programme has also allowed Council to revise its previous longer term assumption of 6% rate rises out over the next 10 years, to a sliding reduction of increases down to 4% by the end of the current 10-year LTFP.

With regard to the renewal of this infrastructure, based on the extensive degradation curve modelling of the cost of these assets, their service level and estimated life of the various assets, it is now determined that an allowance of an additional $0.697 million is required for renewal on an annual basis over the life of the current long term financial plan.

This is not money that is required to be expended currently on an annual basis, but it is the amount required to be generated per annum over the next 10 years to ensure that Council is quarantining funds to ensure the longer-term sustainability of this infrastructure. The majority of the newer infrastructure will not require substantial renewal in the life of this long term financial plan, so the financial expenditure impact of this requirement is masked by the expected life of these assets.

However, Council has modelled the costs of these assets out over the next 100 years to not only ensure its understanding of the costs of these assets, but to manage and responsibly plan for the known renewal that will be required for its public infrastructure. Longer term modelling shows that nearly $8.0 million of funds will be required in 2026, just beyond the boundaries of Council's long term financial plan, in order to meet the first large renewal of a number of assets that Council received in the post-2009 period, as the life of a substantial portion comes to a point where intervention will be required by Council, as represented below.

As shown in Council's response to Criterion 2, the further extension of this asset modelling shows that approximately another $15.0 million will be required in the 10 years after 2031, with a further $35.0 million required in the 20 years beyond 2031.

This analysis of Council's asset management data has been extensively reviewed by CT Management (Ross Goyne) and Mark Davies (at the request of Local Government Victoria) to verify the accuracy of the underlying asset methodology and information that has been utilised to develop Council's long term asset management plans and financial plan.

Annual Budget Process

Council's annual budget process follows the same principles that drive the development of the Council Plan, the Strategic Resource Plan and the Long Term Financial Plan.

In light of the mounting cost pressures faced by Council, and in the absence of further funding assistance from State Government despite the extensive advocacy campaign that has been undertaken, three further principles have been adhered to during the most recent budget cycles to assist in managing costs:

- No new initiatives without grant funding;
- Capital works program to focus on renewal, not on new assets or the expansion or upgrade of existing assets; and
- Attracting additional grant funds to augment Council's expenditure on capital programs.

Council has been unable to consider adding new service programs or to look at the development of new capital projects within the Shire in recent years, to ensure that the focus has remained on funding the operation, management and renewal of services and infrastructure that Council already retains responsibility for, without reneging on its commitment to the community to restrict annual rate rises to no higher than 6%.

Council's capital works program has been heavily focused on renewal activities, and through the utilisation of capital works grant (either recurrent or non-recurrent), to minimise the rating contribution to the capital works delivery whilst maintaining existing services.

Appendix A – Supporting Documents

Reference	Date	Document type	Title/Topic
A.1	Aug- 08	Document	Budget 2008 - 2009
A.2	May-10	Media Release	KPMG Audit
A.3	Aug-10	Media Release	Royal Commission findings welcomed
A.4	Feb-11	Media Release	Bushfire recommendations progress
A.5	May-11	Media Release	Draft budget savings and initiatives
A.6	May-11	Media Release	Draft Budget highlights challenges ahead
A.6a	May- 11	Media Release	Draft Budget 2011-12 Information Sessions
A.7	May- 11	Council Meeting Minutes	Minutes Ordinary Meeting of Council 25 May 2011
A.7a	Feb- 12	Document	Services Review Report Summary
A.8	Mar-12	Media Release	MSC Services Review - Council action plan for a financial future
A.9	Jun-12	Media Release	Council adopts 2012-13 Budget
A.10	Jun- 12	Document	Council Plan 2009 – 2013 – 2012 Review incl SRP
A.11	Jul-12	Media Release	Information session to outline Council's rating review strategy
A.12	Jul-12	Media Release	Community visioning day, sight set on future
A.13	Jul-12	Media Release	Public comment sought on rating review
A.14	Jul-12	Media Release	Rating options, Council wants your feedback
A.15	Aug-12	Media Release	Public comment period extended for rates review strategy
A.16	Sep- 12	Document	Asset Management Strategy
A.17	Sep- 12	Policy	Community Engagement Policy
A.18	Sep- 12	Document	Community Engagement Toolkit
A.19	Nov-12	Media Release	Library Service Review
A.20	Nov-12	Media Release	Local Government Minister's visit
A.21	Nov- 12	External Media Release	The Age – Library job cuts put council in locals' bad books
A.22	Feb-13	Media Release	Rate strategy needs further consideration
A.23	Mar-13	Media Release	Council plan update

A.24	May-13	Full page advertisement	Draft Budget 2013-14 and Draft Council Plan 2013-17
A.25	May-13	Media Release	Capital works program supports existing infrastructure
A.26	May-13	Media Release	Building our future, Draft Council Plan released for comment
A.27	May-13	Media Release	Council delivers conservative Draft Budget
A.28	May-13	Media Release	Have your say, Draft Council Plan and Budget
A.29	Jun-13	Media Release	Council adopts Budget and Council Plan
A.30	Oct-13	Mayor's Chair	Mayor Walsh - Support from State Government needed
A.31	Feb- 14	Policy	Asset Management Policy
A.32	Feb-14	Media Release	Support welcomed; advocacy continues
A.33	Feb-14	Mayor's Chair	Mayor Rae - Making opportunities out of challenges
A.34	Feb- 14	Report	Vago – Asset Management and Maintenance
A.35	Mar-14	Mayor's Chair	Mayor Rae - What services are most important?
A.36	Mar-14	Mayor's Chair	Mayor Rae - State Government funding welcomed
A.37	Apr-14	Letter	Invitation letter Vision 2030 Workshop No 2
A.38	May-14	Councillor Comment	Cr Walsh - Folks it getting serious
A.39	May-14	Media Release	Council continues to advocate for funding support
A.40	May-14	Document/Handout	Murrindindi 2030 Vision Workshop No 2 Workbook
A.41	May-14	Mayor's Chair	Mayor Rae - Rates are on everyone's minds
A.42	May-14	Councillor Comment	Cr Derwent - What does our future hold?
A.43	May-14	Media Release	Council plans for future financial sustainability
A.44	May-14	Letter	Follow up letter to non attendees Vision 2030 Workshop No 2 (49 letters)
A.45	May-14	Letter	Target group letter Vision 2030 (55 letters)
A.46	May-14	Feedback form	Vision 2030
A.47	May-14	Mayor's Chair	Mayor Rae - In it to win it, for our long term future
A.48	Jun-14	Mayor's Chair	Mayor Rae - Support is both necessary and appropriate
A.49	Jun-14	Mayor's Chair	Mayor Rae - Purchase of goods and services
A.50	Jun- 14	Document	Hume Regional Growth Plan
A.51	Jun- 14	Letter	Hon Tim Bull – Letter to Margaret Abbey
A.52	Jul-14	Media Release	Council reaches out to community over funding shortfall

A.53	Jul-14	Mayor's Chair	Mayor Rae - Bridging our large financial gap
A.54	Jul-14	Mayor's Chair	Mayor Rae - Add your voice to ours
A.55	Jul-14	Councillor Comment	Cr Walsh - Where to from here
A.56	Aug-14	Letter	Funding Advocacy Letter to Committees of Management
A.57	Aug-14	Letter/Handout	Funding Advocacy Letter to residents from Mayor
A.58	Aug-14	Fact sheet	Funding Advocacy FAQs
A.59	Aug-14	Fact sheet	Funding Advocacy Option Paper Fact Sheet
A.60	Aug-14	Mayor's Chair	Mayor Rae - The costs are real, the solution is yet to evolve
A.61	Aug-14	Hard copy form	Funding Advocacy Feedback Form
A.62	Aug-14	Media Release	Council's listening – and now on Facebook!
A.63	Aug-14	Mayor's Chair	Mayor Rae - How do we communicate effectively with you?
A.64	Aug-14	Mayor's Chair	Mayor Rae - Expect more in the mail than just your rates notice
A.65	Aug-14	Councillor Comment	Cr Challen – Yay for Yea!
A.66	Sep-14	Mayor's Chair	Mayor Rae – Keep your ideas and comments coming
A.67	Sep-14	Mayor's Chair	Mayor Rae - The understanding of our situation is growing
A.68	Sep-14	Media Release	Council rejects Minister's misleading claims
A.69	Sep-14	Councillor Comment	Cr Ruhr - Let's work on fixing the problem together
A.70	Sep-14	Media Release	CEO Response to Minister Bull
A.71	Sep-14	Advertisement	Advert Funding Advocacy Feedback period closure
A.73	Sep-14	Mayor's Chair	Mayor's Rae – Thanks for having your say
A.74	Sep-14	Councillor Comment	Cr Walsh – Handling the long term impacts
A.75	Oct-14	Letter	Margaret Abbey - Letter to Hon Tim Bull
A.76	Oct- 14	Letter	Hon Tim Bull – Letter to Margaret Rae
A.77	Oct-14	Media Release	Funding Advocacy Where to from here
A.78	Dec-14	Media Release	New Government; New Opportunity – Council looking forward to working with new Cabinet
A.79	Jan-15	Mayor's Chair	Mayor Rae - Rating strategy works have begun
A.80	Jan-15	Advertisement	Community comment sought on Murrindindi Rating Strategy
A.81	Mar-15	Mayor's Chair	Mayor Rae - A mix of solutions to address the shortfall

A.82	Mar-15	Councillor Comment	Cr Walsh – All sectors will contribute to our long term sustainability
A.83	Mar-15	Media Release	Council adopts new Rating Strategy
A.84	Mar- 15	Document	Rating Strategy
A.85	Apr-15	Media Release	Draft Budget 2015/2016 sets Council's direction
A.86	Apr-15	Media Release	Council Plan goals remain achievable
A.87	Apr-15	Mayor's Chair	Mayor Rae – Draft Budget
A.88	May-15	Media Release	Council adopts Budget, Review of Council Plan and Strategic Resource Plan
A.89	May- 15	Document	Budget 2015/2016
A.90	May-15	Mayor's Chair	Mayor Rae – State Government proposal to introduce rate capping
A.91	May- 15	Document	Council Plan 2013-17 – 2015 Review incl SRP
A.92	May-15	Mayor's Chair	Mayor Rae – Rural Councils Victoria Forum
A.93	Jun- 15	Web page & document	Vision 2030 Final Document
A.94	Aug-15	Mayor's Chair	Mayor Rae - There is much to think about these days
A.95	Oct-15	Mayor's Chair	Mayor Rae - Rate capping
A.96	Nov-15	Councillor Comment	Cr Walsh – New Fair Go Rates Bill leaves Council with decisions to make
A.97	Nov-15	Letter	Mayor Rae - Letter to Premier Daniel Andrews
A.98	Nov-15	Letter	Mayor Rae - Letter to Hon Natalie Hutchins
A.99	Nov- 15	Award	John Jago Award 2015 – Highly Commended
A.100	Nov- 15	Document	Advocacy – Working in Partnership
A.101	Dec-15	Mayor's Chair	Mayor Rae - Budget preparations underway
A.102	Jan- 16	Document	Rate Capping Analysis
A.103	Jan-16	Media Release	Council resolves to seek variation to rate cap
A.104	Jan-16	Mayor's Chair	Mayor Rae - New year brings new decisions
A.105	Jan-16	Councillor Comment	Cr Kennedy - No simple solution to rate cap
A.106	Feb-16	Mayor's Chair	Mayor Rae - Rate cap variation
A.107	Feb-16	Councillor Comment	Cr Walsh - Vision 2030 the basis for decisions, including the development of the budget
A.108	Feb-16	Mayor's Chair	Mayor Rae - Core vs non core services, an explanation
A.109	Mar-16	Letter	Hon Natalie Hutchins - Letter to Mayor Rae

A.110	Mar-16	Letter	Hon Jaala Pulford - Letter to Mayor Rae
A.111		Web page	Murrindindi 2030 Vision
A.112		Web page	Funding Advocacy
A.113		Web page	Funding Advocacy - Frequently Asked Questions
A.114		Web page	New & Gifted Assets explained

Appendix B – Confidential Supporting Documents

Reference	Date	Document type	Title/Topic
B.CONF 1	Mar-11	Document	KPMG Report - Impact on Murrindindi Shire Council of Rebuild and Expanded Assets
B.CONF 2	Jan-12	Document	CT Management Services Review Report 1
B.CONF 3	Jan-12	Document	CT Management Services Review Report 2
B.CONF 4	Feb-12	Briefing Note	Report - Services Review
B.CONF 5	Feb-12	Document	KPMG Report - Risk assessment and modelling of financial assistance
B.CONF 6	Aug- 12	Briefing Note	Report – Economic Development Service Review
B.CONF 7	Aug- 12	Briefing Note	Report – Parks and Gardens Service Review
B.CONF 8	Aug- 12	Briefing Note	Report – Library Service Review
B.CONF 9	Sep- 12	Briefing Note	Report – Community Services Review
B.CONF 10	Mar- 13	Briefing Note	Report – Organisational Staffing Requirements
B.CONF 11	Mar- 13	Briefing Note	Report – Infrastructure Services Service Review
B.CONF 12	Apr- 13	Briefing Note	Report – Corporate Services Service Review
B.CONF 13	Apr- 13	Briefing Note	Report – Finance Service Review
B.CONF 14	Jun-13	Briefing Note	Report – Waste Management Review
B.CONF 15	Jul- 14	Briefing Note	Report – Quarry Service Review
B.CONF 16	May- 15	Briefing Note	Report – Review of Roads and Parks Maintenance Service Levels
B.CONF 17	Jun-15	Document	Mark Davies Report for LGV
B.CONF 18	Jun-15	Letter	Organisational Review
B.CONF 19	Nov- 15	Briefing Note	Report – Aged and Disability Service Review
B.CONF 20		Document	Background, Impact and Quantification of Cost Shifting to Council