

Hindmarsh Shire Council

Decision on application for a higher cap 2017-18

July 2017

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1. Our decision

This is the second year of the Fair Go Rates system and councils can apply for higher caps for up to four years.

Hindmarsh Shire Council (Hindmarsh) applied for a higher cap of 4 per cent for 2017-18 (inclusive of the Minister's rate cap of 2 per cent). Hindmarsh estimates this will generate \$144 000 of additional revenue (above the Minister's rate cap) in 2017-18.¹

The Essential Services Commission (the Commission) assessed Hindmarsh's application and approves a higher cap of 4 per cent for 2017-18.

We are satisfied that the application shows a long-term funding need, and that Hindmarsh needs the higher cap to help manage assets and deliver services in the long-term interests of ratepayers and the community. In 2017-18, Hindmarsh will use the extra revenue to upgrade road assets. We are satisfied that the application shows a need to invest in road assets. This is supported by the council's long-term financial planning and community engagement.

¹ A higher cap represents a permanent increase in a council's rate base that will continue to apply in each subsequent year. Hindmarsh's long-term financial plan assumes that rates increase by 2 per cent per year from 2018-19. A higher cap of 4 per cent in 2017-18 would generate approximately \$147 000 of extra revenue in 2018-19, \$150 000 in 2019-20, and \$153 000 in 2020-21.

2. Background

Under the Fair Go Rates system, established under the *Local Government Act 1989* (the Act), councils must limit their average rate increase to a cap set by the Minister for Local Government. The Minister set a 2 per cent rate cap for the 2017-18 financial year.

Councils wishing to increase their average rate by more than the cap must get approval from the Essential Services Commission. From this year, councils can apply for up to four years of higher caps. We assess each council's application and we either approve, approve in part or do not approve the higher cap(s).

In assessing applications, the Commission must take into account the six legislative matters² and the statutory objectives³ of the Fair Go Rates system (box 1). We must also consider a council's compliance with previous years' caps.

Box 1 The Fair Go Rates system

The **legislative matters** are:

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

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

² *Local Government Act 1989* Section 185E(3).

³ *Local Government Act 1989* Section 185A.

Affordability

Affordability is an important consideration for a council when setting its rates. We expect that councils take this into account when they make their decisions about whether to apply for a higher cap.

We do not assess affordability in councils' higher cap applications. The legislation does not require us to do so, nor is it appropriate.⁴ Councils are best placed to determine their community's capacity to pay after taking into account all major factors that may affect their communities. The decision on the appropriate trade-off between service impacts and the level of rates rightly sits within the council's jurisdiction.

Our role, as defined in legislation, is limited to ensuring that the higher cap application process undertaken by councils is robust and transparent.

Monitoring outcomes

Each year we report on each council's compliance with its rate cap, and every two years we report on outcomes from the Fair Go Rates system. When doing so, we will monitor and report on whether councils have spent the extra revenue from a higher cap in line with the expenditure needs cited in their applications. While we approve rates and not expenditure, it is important that the community and ratepayers receive confirmation that councils have met their commitments. If the extra revenue is redirected to other areas, we will seek and publish a council's explanation for the reallocation of those funds.

⁴ Affordability is not one of the matters listed in the legislation that councils must address in their applications — section 185E(3).

3. What did the council apply for and why?

Hindmarsh Shire Council applied for a higher cap of 4 per cent for 2017-18, which is 2 per cent above the rate cap set by the Minister for Local Government. The council estimates this will generate \$144 000 of extra revenue (above the Minister's cap) in 2017-18.⁵

Hindmarsh applied for a higher cap to help manage assets and deliver services at the levels expected by ratepayers and the community. In 2017-18, the council will use the extra revenue to upgrade road assets.

The application states that Hindmarsh needs a higher cap because it is facing a financial sustainability challenge, with expenditure projected to exceed revenue going forward. Hindmarsh sees the higher cap as part of a broader approach to addressing this challenge.

The application states that Hindmarsh needs to spend more on managing assets, particularly roads, to help meet its asset renewal targets and deliver on farmer consultation and strategic planning. The council believes it is delivering a basic level of services very efficiently, and that further reductions would have a negative impact on the community.

Although Hindmarsh applied for a higher cap for one year only, the cap will generate extra revenue beyond 2017-18. This is because the \$144 000 of extra revenue will become part of the rate base and increase in line with future rate growth. In the out years (2018-19 to 2020-21), Hindmarsh plans to spend the extra revenue on road asset upgrade and renewal.

Hindmarsh's application is available on our website (www.esc.vic.gov.au). Appendix A shows the communications between the Commission and Hindmarsh during the assessment period. We thank the council for providing information in response to our requests during the assessment period.

⁵ A higher cap represents a permanent increase in a council's rate base that will continue to apply in each subsequent year.

4. How did we reach our decision?

As required under the Fair Go Rates system, we examined each of the six legislative matters addressed in Hindmarsh's application. Our observations on the extent to which the application addresses each of the legislative matters is summarised in Appendix B. Further, the Act requires the Commission to have regard to a council's record of compliance with previous years' caps.⁶

Our assessment takes into account the statutory objectives and legislative matters that applications must address. This approach ensures that the assessment includes all relevant factors covered by the legislation that impact on whether the application demonstrates a long-term financial need that should be funded through a higher cap.⁷

To assist in our assessment we sought external advice from Deloitte Access Economics (Deloitte), KJA and MosaicLab, which is published on our website. The advice covers technical areas of financial capacity and community engagement.

Our assessment is set out below.

4.1. What is the underlying financial position?

Hindmarsh's underlying financial position is expected to decline over the long-term. The application forecasts that it will operate with a negative adjusted underlying result over the next four years (table 1). Even with the higher cap, its adjusted underlying result is projected to decline in the long-term.⁸ Asset renewal is projected to average 80 per cent of depreciation over the long-term. However, the working capital ratio will decline significantly at projected levels of revenue and expenditure, as unrestricted cash declines (table 1). The application shows that without extra revenue, Hindmarsh will not be able to continue delivering services and renew assets without facing liquidity constraints. This view is supported by Deloitte.

[Hindmarsh] needs to strive to achieve a least an adjusted underlying breakeven result over the longer-term. This is likely to require efficiency improvements, cuts in service levels or increases in rate or other revenue in future.⁹

Hindmarsh is dependent on rates and grants

Hindmarsh's underlying financial position is declining because expenditure is projected to exceed revenue going forward. The application shows that Hindmarsh is dependent on revenue from rates and grants. In 2017-18, 35 per cent of Hindmarsh's revenue is expected to come from grants, and 48 per cent from rates and charges. The application says that reductions in state and Commonwealth grant funding and the introduction of rate capping have led to its declining financial position. The council has not been able to reduce expenditure sufficiently or raise other revenue to mitigate this impact.

⁶ In 2016-17, Hindmarsh complied with the 2.5 per cent cap set by the Minister for Local Government.

⁷ Our earlier decision on Pyrenees Shire Council differs in terms of presentation; we followed the same approach in assessing all applications.

⁸ Hindmarsh's financial planning currently goes to 2026-27.

⁹ Deloitte Access Economics 2017, *Assistance with review of 2017-18 rate cap applications — Hindmarsh Shire Council*, July, p. 6.

Hindmarsh has a large road network and a small population

Hindmarsh manages significant infrastructure assets (particularly roads) and the application shows that depreciation is a big expense. In 2017-18, depreciation is expected to be \$5.1 million, which is 28 per cent of expenditure. The application says that funding and own source revenue is not enough to maintain and renew the shire's road network. Hindmarsh also has a small population (around 5500 people) and a small rate base. The application notes that this puts pressure on the council's ability to improve its underlying financial position.

Table 1 Hindmarsh's forecast local government performance reporting framework indicators (with higher cap)^a

LGPRF indicator ^b	2015-16 actual	2016-17 forecast actual	2017-18 budget	2018-19 forecast	2019-20 forecast	2020-21 forecast
Adjusted underlying result (%) ^c	-10.4	3.2	-13.3	-6.3	-8.1	-12.8
Asset renewal (%)	66.0	81.5	67.9	79.1	87.1	75.0
Working capital ratio (%) ^d	287.9	231.2	151.0	139.8	103.9	60.0

^a See appendix C for definitions. ^b Table only includes local government performance reporting framework indicators considered in making our decision. ^c Hindmarsh explained that the significant movement in the adjusted underlying result from 2015-16 to 2017-18 is due to the timing of Commonwealth financial assistance grants. ^d The working capital ratio is forecast to decline significantly due to reductions in unrestricted cash.

Data source: Hindmarsh Shire Council 2017, *Budget baseline information template*, May.

4.2. What has been done to manage the underlying position?

Hindmarsh has taken steps to reduce expenditure and increase revenue. Despite this, the council still has a long-term funding need.

Hindmarsh has achieved savings and efficiencies

The application shows that Hindmarsh is focused on operating efficiently and making savings where possible. Local government performance reporting framework indicators show that Hindmarsh delivers some services (e.g. home and community care, road reconstruction and resealing) more cost effectively than similar councils. The application explains that the higher cost of some services is outside of the council's control. For example, travel costs are generally high due to the shire's large area.

The application shows that Hindmarsh has reduced costs in a number of areas, resulting in savings of up to \$665 000 per year. The application also flags opportunities for further savings, such as shared services with neighboring councils. Advice from Deloitte notes the 'considerable successful work [Hindmarsh] has already undertaken to achieve cost reductions'.¹⁰

Going forward, Hindmarsh will need to continue reviewing services in a planned and strategic way.

¹⁰ Deloitte Access Economics, Op. Cit., p. 5.

Hindmarsh considered reprioritising expenditure

The council considered reprioritising expenditure but concludes that the higher cap is the best way to finance asset upgrade. The application outlines potential savings of up to \$294 000 per year from reduced service levels. However, it rules out redirecting expenditure as the council believes it is already delivering a minimum level of services, and that further reductions would have a negative impact on the community.

The application explains that redirecting capital works expenditure would mean shifting funds from one project to another. This would disregard expert advice and community preferences (particularly from the farmer consultations), which informed Hindmarsh's road management plan and capital works program.

Hindmarsh considered alternative funding options

The council considered alternative funding options but concludes that they are not appropriate or sufficient to address its long-term funding need. For example, the application states that the council would use debt to fund significant intergenerational assets, but not for recurrent expenditure on services or assets. This aligns with the council's borrowing policy.

The council previously developed alternative revenue streams. For example, it invested in the Dimboola caravan park to increase annual returns. It also reviews its fee structure every budget, but does not increase fees by more than a small indexation. The council believes that due to its rural location and socio-economically disadvantaged population it has limited ability to raise revenue from other sources.

The application demonstrates that Hindmarsh has sought to achieve efficiencies and reduce costs, and has adequately considered reprioritising expenditure and alternative funding options.

4.3. How were community views taken into account?

Hindmarsh has done a significant amount of community engagement in the last two years, as well as specific engagement on the higher cap.

Good past and ongoing engagement has helped Hindmarsh show that asset management and strategic planning is shaped by community views. The application shows that engagement programs have helped the council to prioritise expenditure in line with community preferences. It says that the community has become more informed about council decision making and the council's financial position. This view is supported by KJA.

The conversations with the community are around the issue of sustainability and how this can be achieved in a holistic sense rather than just focusing on specific and immediate issues such as individual services or infrastructure. This is to be commended as it leads to more mature conversations about trade-offs.¹¹

Engagement on the higher cap was tailored to the shire's geographically dispersed population. Community workshops were well attended and would have led to the community becoming more informed about council decision making. The council sought feedback via a survey.

¹¹ KJA 2017, *Essential Services Commission — Advice from an independent engagement expert: Hindmarsh Council*, June, p.3.

The application says that Hindmarsh engaged on trade-offs by asking the community which services they value and what services or infrastructure maintenance and renewal could be reduced or eliminated. However, it is unclear what information Hindmarsh provided about the different options and how it was presented. The council should present information in a way that draws out the community's views on trade-offs and document both the way information is presented and the community's response.

The application describes how engagement has influenced asset management and strategic planning, which provides important context. However, an application should also show how engagement informed the higher cap application. Hindmarsh should clearly articulate how engagement has influenced the council's consideration of trade-offs and the decision to apply for a higher cap.

Hindmarsh should also better document the planning and evaluation of community engagement. This would help explain why the council engaged the way it did, and whether the engagement program achieved its intended outcomes.

Overall, MosaicLab concluded:

Given the small community and the attempt to access and understand views across the shire, in our view this application meets the basic tenor of the engagement principles as outlined in the Commission's community engagement guidance and reference materials.¹²

4.4. Are the plans, policies and processes in place sufficient to demonstrate a long-term funding need?

Hindmarsh's application shows a good level of long-term financial planning. Council has policies, plans or frameworks in place for borrowing, road management and community engagement. Further, the application shows how community engagement has informed asset management and strategic planning. For example, farmer consultations led to a new category of road in the road management plan, and resources were shifted to align with this revision.

The application shows a good level of road asset management planning, informed by technical expertise and community preferences, which demonstrates a need to fund road asset renewal over the long-term. The council aims to renew 100 per cent of road assets at intervention levels defined in its road management plan, and it has projected that it will underspend on road asset renewal by \$505 000 per year over the next ten years. Advice from Deloitte notes that 'Hindmarsh has undertaken considerable asset management planning work with consultant input'¹³ and 'it is quite possible that Hindmarsh Shire should ideally be spending more on asset renewal'.¹⁴

Hindmarsh has \$25 million of building assets, which is small compared to its road assets. However, the application notes that many of its buildings were constructed soon after World War II, which will lead to a spike of renewal expenditure in the future. Going forward, the council will need to integrate management of its building assets with its long-term financial planning.

¹² MosaicLab 2017, *Fair Go Rates system assessment of application for higher rate cap: Community engagement Hindmarsh Shire Council*, June, p.10.

¹³ Deloitte Access Economics, Op. Cit., p.4.

¹⁴ Ibid., p.6.

As noted in section 4.2, Hindmarsh will need to continue reviewing services in a planned and strategic way. The council should also continue engaging with its community and ratepayers on preferences for service levels and asset management. Overall, the application demonstrates sufficient long-term financial planning that is informed by technical expertise and community views.

4.5. What have we concluded?

To justify a permanent increase in the rate base, an application should demonstrate a long-term funding need that is consistent with the long-term interests of the council's ratepayers and community for sustainable outcomes in services delivery and critical infrastructure.

We are satisfied that the application shows a clear long-term funding need, and that Hindmarsh requires the higher cap to help manage assets and deliver services in the long-term interests of ratepayers and the community. In 2017-18, Hindmarsh will spend the extra revenue on road asset upgrade. We are satisfied that the application shows a need to invest in road assets.

Hindmarsh's application is well supported by the following:

- clearly identified financial sustainability and asset management challenges
- demonstrated efforts to achieve efficiencies and deliver value for money
- adequate consideration of reprioritising expenditure and alternative funding options
- robust long-term financial planning that is informed by technical expertise and community views
- community engagement that met the engagement principles set out in our guidance.

Accordingly, we approve Hindmarsh's application for a higher cap of 4 per cent for 2017-18.

Appendix A: Summary of communications with Hindmarsh

Hindmarsh submitted its application for a higher cap on 17 May 2017. The Commission contacted Hindmarsh with some follow-up questions (table A1). Hindmarsh's application is available on our website.

Table A1 Communications between Hindmarsh and the Commission

Date (2017)	Type of communication
17 May	Hindmarsh submitted its application
17 May	The Commission acknowledged that we had received the application
17 May	We asked Hindmarsh for a copy of the budget baseline information (BBI) template in Excel format
17 May	Hindmarsh sent us the BBI template in Excel format and an updated version of the application
6 June	We contacted Hindmarsh with some questions about their application
9 June	Hindmarsh responded to our 6 June request
22 June	We contacted Hindmarsh with a further question about their application
23 June	Hindmarsh responded to our 6 June and 22 June request

Appendix B: Summary of legislative matters

Table B1 summarises the Commission’s observations on how Hindmarsh’s application addresses each of the legislative matters.

Table B1 How the application addresses the legislative matters

Legislative matter	Summary
185E(3)(a) — proposed higher cap	Hindmarsh applied for a higher cap of 4 per cent for 2017-18, which is 2 per cent above the cap set by the Minister for Local Government. ^a Hindmarsh estimates that the higher cap will generate \$144 000 of extra revenue in 2017-18. ^a The higher cap will generate approximately \$450 000 of extra revenue over the forward estimates (2018-19 to 2020-21) if rates increase by 2 per cent per year from 2018-19, as assumed in the council’s long-term financial plan. ^b
185E(3)(b) — reason(s) for which the council seeks the higher cap	<p>The application states that the purpose of the higher cap is to enable the council to ‘continue to deliver day-to-day community services like community care, youth engagement and libraries, and maintain and renew our infrastructure at the levels required by our residents and ratepayers’.^a</p> <p>The application indicates that Hindmarsh will spend the extra revenue on road upgrade in 2017-18.^c From 2018-19 to 2020-21, the council plans to use the extra revenue to upgrade and renew road assets.^c</p> <p>Financial sustainability</p> <p>The application states that Hindmarsh is facing a significant financial sustainability challenge.^d The council projects that expenditure will exceed revenue going forward.^e Hindmarsh is dependent on grants and rates. The application notes that in 2017-18, 35 per cent of revenue will come from grants and 47 per cent will come from rates and charges (without a higher cap).^a</p> <p>The application states that reductions in state and Commonwealth grant funding and the introduction of rate capping have compromised Hindmarsh’s financial position.^{a,e} The shire’s small and socio-economically disadvantaged population limits the council’s ability to develop alternative revenue streams.^a</p> <p>The application draws on the Victorian Auditor-General’s 2015-16 local government audit, which found that small shires have emerging financial sustainability risks.^f It forecast that by 2018-19 Hindmarsh would fall into the medium or high risk band on five out of six financial sustainability risk indicators.^g</p> <p>Even with a higher cap, Hindmarsh forecasts a negative adjusted underlying result of -13.3 per cent in 2017-18 (-14.3 per cent without a higher cap).^h The council projects that its adjusted underlying result will decline over the long-term.^h</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(b) (continued)	<p>Managing assets and delivering services</p> <p>The application states that the council needs a higher cap to help meet its asset renewal targets and deliver on farmer consultation and strategic planning.ⁱ</p> <p>Hindmarsh manages significant infrastructure assets, including 3177 km of roads.^a The application indicates that Hindmarsh will spend the extra revenue on road asset upgrade in 2017-18.^h From 2018-19 the council plans to spend the extra revenue on road asset upgrade and renewal while continuing to deliver services to its community.^c The application projects that, with the higher cap, asset renewal expenditure will average 80 per cent of depreciation over the next ten years.^h However, the council's liquidity will decline significantly at projected levels of revenue and expenditure.^h</p> <p>The application states that asset renewal targets are based on condition assessments and reports, with the most recent report from April 2017.^j Hindmarsh aims to renew 100 per cent of road infrastructure at the intervention levels defined in its road management plan.^{k,l} The council estimates that it will underinvest in road asset renewal by \$504 500 per year over the next ten years.^j</p> <p>The application states that the road resurfacing backlog will likely increase if not addressed.^l The 2017 report by Talis Consultants found that 'over 66 per cent of Hindmarsh's sealed network has a moderate or worse level of oxidisation which suggests that surface integrity will be compromised in the coming years...it is likely that the resurfacing backlog will significantly increase if not addressed'.^l</p> <p>The application notes that the council manages \$25 million of building assets.^j Though this is small compared to its road assets, the application notes that many of its buildings were constructed soon after World War II, which will lead to a spike of renewal expenditure in the future.^j The council has not provided evidence of how it is managing building assets or whether this is integrated into long-term financial planning.</p>
185E(3)(c) — how the views of ratepayers and the community have been taken into account in proposing the higher cap	<p>Engagement on the higher cap</p> <p>Hindmarsh held eight community workshops in eight different locations around the shire on the draft 2017-18 budget and the higher cap. 97 residents attended.^m</p> <p>The application indicates that information was provided via a formal presentation. This included information on the draft 2017-20 council plan, the capital works budget, achievements from the previous council plan, a summary of the shire's financial sustainability challenges, and the impact a higher cap would have on the budget and ratepayers.^m Council issued a media release on its higher cap application and it received local news coverage.ⁿ</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(c) (continued)	<p>Workshop attendees were invited to give feedback on which services they value and which services and infrastructure delivery could be reduced or eliminated.^o It is unclear whether the council provided information about the different options, and whether information was presented in a way that drew out the community's views.</p> <p>The council sought feedback via a survey and two thirds of surveys returned supported a higher cap.^o However, the number of responses was low (only 27 surveys were returned).^o The application cites four comments (which represent a range of views on the higher cap) and listed the priorities raised during the consultation.^o</p> <p>Other community engagement</p> <p>Hindmarsh has a community engagement framework^p and the application shows that it has done significant community engagement in the last two years on community plans for the four towns (Dimboola, Nhill, Jeparit and Rainbow), an economic development strategy, a sport and recreation strategy, and farmer consultations.^q In total, 21 community workshops were held with 485 participants and 257 surveys were completed.^r The council used a mix of engagement methods including workshops, paper and online surveys, one-on-one meetings, listening posts, telephone interviews and advisory committees.^r</p> <p>The application states that engagement helped the council to understand community needs and prioritise expenditure. It also helped the community to understand the shire's financial position and establish consensus on priorities.^r Farmer consultations led to a new category of road in the road management plan^j — 6S rural road strategic — and resources were shifted to align with this.^r</p> <p>The application cites community satisfaction survey scores as evidence of the quality of Hindmarsh's community engagement.^m In 2015-16 Hindmarsh scored 59 out of 100 on 'community satisfaction with community consultation and engagement', outperforming similar councils (score of 53) and all councils (score of 55).^m Hindmarsh scored 57 out of 100 on 'community satisfaction with council decisions', outperforming similar councils (score of 53) and all councils (score of 54).^m</p>
185E(3)(d) — how the higher cap is an efficient use of council resources and represents value for money	<p>The application cites local government performance reporting framework indicators to show that Hindmarsh delivers many services more cost effectively than similar councils (e.g. home and community care, road reconstruction and resealing).^s The application explains that the higher cost of some services is outside the council's control. For example, travel costs are generally high due to the shire's large land area.^s</p> <p>The application cites community satisfaction survey scores showing that Hindmarsh is performing better than similar councils in some areas (e.g. elderly support, local streets and footpaths) but lower on others (e.g. sealed local roads, recreational facilities, waste management).^t</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(d) (continued)	<p>The application lists areas where costs have already been reduced, including service delivery and capital works, resulting in savings of up to \$655 093 per year depending on the scale of capital works.^u</p> <p>The application states that the council will continue to review services and infrastructure maintenance.^v It flags specific opportunities for further savings, such as shared building and planning services with neighboring councils.^w However, Hindmarsh does not expect to achieve significant further savings by improving efficiency, and expects that future savings would need to come from reduced service levels.^v</p>
185E(3)(e) — whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate	<p>Reprioritising proposed expenditure</p> <p>The application states that as a significant portion of Hindmarsh’s expenditure is on capital works (particularly road renewal), reprioritising asset expenditure would simply mean shifting funds from one project to another.^x This would disregard expert advice and community engagement (particularly the farmer consultations) which has informed Hindmarsh’s road management plan and capital works program.^x</p> <p>The application considers services that could be reduced, such as kindergartens, school crossing supervisors and swimming pool hours. Hindmarsh quantified potential savings of up to \$293 995 per year.^y However, the application states that Hindmarsh is already delivering a minimum level of services. The council believes that further reducing services would have a devastating and unacceptable impact on the community.^l</p> <p>Alternative funding options</p> <p>The application states that due to its isolated location and small and disadvantaged population, Hindmarsh has limited ability to develop new or expand existing revenue streams.^z The council has expanded some revenue streams, such as by investing in the redevelopment of the Dimboola caravan park.^z It reviews its fee structure every budget cycle. However, the application states that due to the community’s limited capacity to pay, it does not increase fees by more than a small indexation.^z</p> <p>The application states the council would consider borrowing to fund significant intergenerational assets. However, it has a policy of not borrowing for recurrent expenditure like service delivery and infrastructure renewal.^{aa,bb}</p> <p>The application states that council always considers leasing for major items like plant.^{cc} However, because of financial uncertainty Hindmarsh generally prefers to pay upfront than commit to a lease.^{dd}</p> <p>The council has previously used special charges schemes for new or upgraded infrastructure where there was a benefit to particular residents.^{dd} However, the application states that its current capital works plan does not include initiatives that are suitable for a special charges scheme.^{dd}</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(f) — that the assumptions and proposals in the application are consistent with the council's long-term strategy and financial management policies set out in the council's planning documents and annual budget	<p>The application includes the following documents in support of the proposed higher cap:</p> <ul style="list-style-type: none"> • 2015-16 annual report • 2016-17 budget • draft 2017-18 budget and strategic resource plan • draft 2017-21 council plan • long-term financial plans 2016-17 to 2026-27 • community engagement framework • borrowing policy • draft road management plan.

^a Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.3. ^b Hindmarsh Shire Council 2017, *Long-term financial plan 2016-17 to 2026-27*, May;. ^c Hindmarsh Shire Council 2017, *Draft 2017-18 budget: Appendix C — Capital works, based on affordability*, June. ^d Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.6. ^e Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, pp.9-11. ^f Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.12. ^g Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.14. ^h Hindmarsh Shire Council 2017, *Budget baseline information template*, May. ⁱ Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.18. ^j Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, pp.21-2. ^k Hindmarsh Shire Council 2017, *Road management plan*, May. ^l Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.38. ^m Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.25. ⁿ Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.27. ^o Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.26. ^p Hindmarsh Shire Council 2015, *Community engagement framework*. ^q Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, pp.23-25. ^r Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.23. ^s Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, pp.28-29. ^t Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.30. ^u Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, pp.30-2. ^v Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.16. ^w Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.32. ^x Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.37. ^y Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, pp.38-39. ^z Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.15. ^{aa} Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.33. ^{bb} Hindmarsh Shire Council 2017, *Borrowing policy*, May. ^{cc} Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, pp.33-34. ^{dd} Hindmarsh Shire Council 2017, *Application for a rate cap variation*, May, p.34.

Appendix C: Local government performance reporting framework indicator definitions

- a) **Adjusted underlying result** is adjusted underlying surplus (deficit) as a percentage of adjusted underlying revenue. A surplus or increasing surplus suggests an improvement in the operating position.

Adjusted underlying revenue is total income less non recurrent capital grants used to fund capital expenditure, non-monetary asset contributions and other contributions to fund capital expenditure.

Adjusted underlying surplus is adjusted underlying revenue less total expenditure.

- b) **Working capital ratio** is current assets as a percentage of current liabilities. It indicates whether a council has sufficient working capital to pay bills as and when they fall due. High or increasing level of working capital suggests an improvement in liquidity.

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

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