

Warrnambool City Council

Decision on application for a higher cap 2019–20 to 2021–22

29 May 2019

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Summary

Warrnambool City Council applied for a higher cap of 4.50 per cent, inclusive of the minister's rate cap, for three years (2019–20, 2020–21 and 2021–22). Warrnambool estimates that the extra 2.00 per cent above the minister's rate cap for 2019–20 would generate approximately \$655,000 of additional revenue in that year or, on average, \$37 per rateable assessment. The cumulative effect of the higher caps over the three years would be approximately \$4.12 million of additional revenue compared to the minister's rate cap.¹

We assessed Warrnambool's application, and have decided to approve the proposed higher cap of 4.50 per cent for 2019–20 and 2020–21, but not for 2021–22. The cumulative effect of the higher caps in 2019–20 and 2020–21 would be approximately \$3.4 million of additional revenue over three years compared to the minister's rate cap. We are satisfied that the approved higher caps are appropriate, because the council faces immediate and ongoing funding pressure.

However, we have concluded that it would be inappropriate for us to approve-in-full the higher caps proposed by the council because Warrnambool's application does not provide sufficient evidence of the long-term funding need. In particular, it is not clear to us that the council has done all it can to stabilise its financial sustainability. We expect the council to continue its program of service reviews and engagement with its community and stakeholders to identify a pathway to financial stability.

Our decision

We have approved higher caps of 4.5 per cent in 2019–20 and 2020–21 for Warrnambool City Council. We have not approved a higher cap for 2021–22.

¹ A higher cap represents a permanent increase in a council's rate base that will continue to apply in each subsequent year. The additional revenue has been calculated based on an assumption that the Minister's rate cap will remain at 2.50 per cent over the three years.

1. Background

Under the Fair Go Rates system, established under the Local Government Act 1989, councils must limit their average rate increase to a cap set by the Minister for Local Government. The minister set a 2.50 per cent rate cap for the 2019–20 financial year.

Councils wishing to increase their average rate by more than the minister's cap must get approval from the Essential Services Commission. We assess each council's application and can either approve, approve in part, or not approve the higher cap proposed by the council. We may also approve an alternative higher cap, as long as this is not higher than the higher cap proposed by the council. Councils can apply for higher caps for up to four years.

In assessing applications, we 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.

Each year, we publish guidance to help councils plan for and make higher cap applications.⁴ This guidance also aims to help councils understand how we interpret the legislative provisions when assessing applications, including:

- the guiding principles we follow
- the nature of the material we expect to find in an application and the supporting documents that councils should provide.

While our guidance provides information in general terms about how applications will be assessed, it should not be considered a set of fixed rules. We will assess each application on its merits and determine the appropriateness of a higher cap having regard to all relevant factors and the unique circumstances of the applicant council.

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.⁵ Councils are best placed to determine their community's capacity to pay rates 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, focuses on ensuring that the higher cap application process undertaken by councils is robust and transparent.

⁴ Essential Services Commission 2019, *Fair Go Rates system – applying for a higher cap: Guidance for councils 2019–20*, January.

⁵ Affordability is not one of the matters listed in the legislation that councils must address in their applications — Local Government Act 1989 Section 185E(3).

2. What did the council apply for and why?

Warrnambool City Council applied for a higher cap of 4.50 per cent, inclusive of the minister's rate cap, for three years (2019–20, 2020–21 and 2021–22). The application estimates that the higher cap for 2019–20 would generate approximately \$655,000 in additional revenue (above the minister's cap) in 2019–20 or, on average, \$37 per rateable assessment. The cumulative effect of the proposed higher caps over the three years would be approximately \$4.12 million of additional revenue compared to the minister's rate cap.⁶

The application states that the council would use the additional revenue in years one and two to progressively close its asset-renewal gap from \$16.5 million to under \$6 million. The application also outlines the council's commitment to working with the Victorian Government and South West TAFE, to establish a new shared library and learning centre and support its future operation. The application states the council would use \$500,000 a year of the additional revenue for the operating costs of this venture, from year three.

The application states that the council is faced with significant challenges to maintain the levels of service to the community within the current rate cap. The application also notes that the higher cap is one lever through which the council is seeking to maintain its services and assets. It is also continuing to seek operating efficiencies, to reduce services where possible and place a greater emphasis on a user pays approach to select services.⁷

Warrnambool council's application, its responses to our request for information (RFI) and our additional questions are all available on our website (www.esc.vic.gov.au). Appendix A shows the communications between Warrnambool and ourselves during the assessment period. We thank the council for providing information in response to our requests during the higher cap assessment period.

⁶ This estimate is based on the assumption that the minister's rate cap would be 2.50 per cent in 2020–21 and 2021–22. This estimate takes into account the permanent increase to the rate base from each higher cap, which continues to compound each subsequent year.

⁷ Warrnambool City Council, *Higher rate cap application*, March 2019, p. 1.

3. How did we reach our decision?

As required under the Fair Go Rates system, we examined each of the six legislative matters addressed in Warrnambool City Council'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 us to have regard to a council's record of compliance with previous years' caps.⁸

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.

To assist in our assessment, we sought external advice from Deloitte Access Economics (Deloitte) which is published on our website. The advice provides technical analysis on the council's financial capacity.

Our assessment is set out below.

3.1. What is the underlying financial position?

The council forecasts ongoing adjusted underlying deficits with or without the higher cap.

We note that Warrnambool forecasts total revenue of \$79.6 million in 2019–20 with the higher cap. Rates and charges represent 51 per cent of total revenue, user fees represent 19 per cent, grants represent 18 per cent and other income represents 12 per cent. Total revenue includes non-current capital grants and non-monetary asset contributions;⁹ revenue net of these amounts would be \$72.9 million in 2019–20. Warrnambool forecasts total operating expenditure of \$72.9 million in 2019–20.

The Know Your Council website shows that revenue per residential property assessment in Warrnambool is comparable to that of similar councils, while expenditure per property assessment in Warrnambool is higher than similar councils.¹⁰

Warrnambool forecasts ongoing adjusted underlying deficits over the next 10 years with or without higher caps (except in 2022–23 where Warrnambool forecasts a small surplus with the higher

⁸ Warrnambool complied with the rate caps set by the Minister for Local Government in 2016–17, 2017–18 and 2018–19.

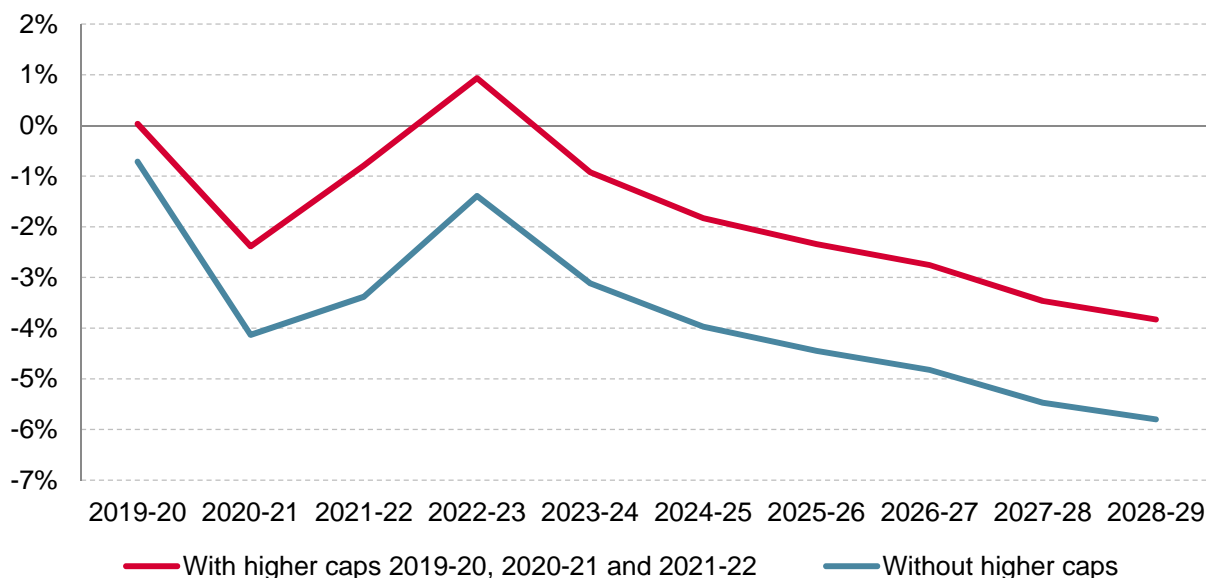
⁹ Non-recurrent capital grants, non-monetary asset contributions and other contributions used to fund capital expenditure are excluded from the calculation of the adjusted underlying result.

¹⁰ <https://www.knowyourcouncil.vic.gov.au/>

caps). Figure 1 shows the adjusted underlying result with higher caps in 2019–20, 2020–21 and 2021–22, and without higher caps (Appendix D defines the relevant local government performance indicators).

We note that the council's application shows Warrnambool is facing ongoing funding pressures in delivering its current level of services, and renewing the infrastructure and assets needed for service delivery.

Figure 1 Adjusted underlying result – with and without higher cap for three years



Warrnambool will use most of the additional revenue from the higher caps to address its renewal gap

The application states that Warrnambool currently has an accumulated asset renewal gap of approximately \$16.5 million. With higher caps in 2019–20, 2020–21 and 2021–21, asset renewal is projected to average 75 per cent of depreciation over the next 10 years and the asset renewal gap would reduce to less than \$6 million by 2029. Without higher caps, asset renewal is projected to average 65 per cent of depreciation and the asset renewal gap would grow to more than \$25 million by 2029.

The application states ‘Warrnambool, because of the structural anomaly arising from amalgamation, regional service provider role, loss of own-source income, cost-shifting and ongoing call to contribute to state-owned assets, is faced with a reduced capacity to deal with this [asset renewal] shortfall’.¹¹

¹¹ Warrnambool City Council, *Higher rate cap application*, March 2019, p. 19.

How did we reach our decision?

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

Warrnambool's application provides several financial and strategic planning documents relating to asset management and service planning. It identifies efficiency-targeting programs and other funding options that it considered as an alternative to a higher cap.

Warrnambool has processes to control expenditure on assets and services, but could do more

Asset management

The council established an asset management policy and an asset management strategy to ensure it provides and manages assets in a sustainable manner. The strategy, dated June 2014, requires the council to provide assets in line with requirements established through consultation and periodic condition reports, following individual asset management plans for each asset class – such as pathways and bridges.

The application includes a report, dated February 2019, on the state of its assets. This indicates asset management plans had been prepared for 4 (of 13) asset classes, and another was in preparation. Four more were scheduled for completion in 2018–19 or 2019–20. The report estimated the current expenditure of \$50,000 on data for asset management needs to be tripled to obtain more up-to-date and detailed data, although the Strategic Resource Plan (July 2018) states there is a program in place for regular updates of condition information for all major asset classes (other than drainage).

We note that Warrnambool's asset management planning appears to be at an early stage. Advice from Deloitte notes *'it is not clear as to the extent or robustness of Warrnambool's asset management planning'*.¹²

Service reviews

In response to our request for information, the council advised that it commissioned a wide review of 97 external and internal services (both customer-focused and organisational support functions). The review assessed the importance and effectiveness of each service against the council's financial sustainability. It provided a framework from which the council could make informed decisions in relation to the scope of services provided to the community.

¹² Deloitte Access Economics, *Assistance with review of 2019–20 rate cap application – Warrnambool City Council*, May 2019, p. 5

The council has since reviewed in detail the need for selected services and the appropriate level of delivery. They include:

- building services
- after-kinder care
- family and children's services administration
- aged and disability services administration.

The council is also commissioning an organisational structure review.

The application states that the council ended the annual entertainment event Fun4Kids in 2016–17 after 19 years, as costs continued to exceed estimated benefits. Of the savings, \$100,000 has been allocated to smaller-scale events, and estimated savings of around \$255,000 over two years have been retained for other purposes. Another visitor attraction in operation over many years, Flagstaff Hill Maritime Village, was reviewed in depth in 2013. Consultation at the time with stakeholders and the community led to development proposals of up to \$26 million, but an interim development option was completed in 2017, costing the council \$1 million (with the state government providing an additional \$2 million). Current net annual costs of \$0.86 million continue to be a factor in the need to apply for a higher cap but plans for further development are not well advanced.

The application included two reports of savings made in service delivery:

- 2017 efficiencies and improvements report
- Efficiencies and improvements report August 2017 – March 2019

Both reports give examples of working smarter or enhancing services to benefit ratepayers.

We note that together the reports describe around 40 changes made – saving more than \$1.5 million over the period of the reports – and that these savings were directed to maintaining assets including roads, footpaths and community facilities.

Warrnambool has taken action to manage revenue and expenditure

The application states that the council has adjusted user fees to manage costs while maintaining demand. For example:

- Car parking was free at times to encourage use, but an improved system increased income from below \$1.2 million to above \$1.4 million in 4 years.
- Warrnambool has contained its user fees at its livestock saleyards — to maintain a competitive position following the establishment of rival facilities nearby.
- Waste management and road resealing have been outsourced— to avoid the higher costs of owning and maintaining vehicles and plant.

How did we reach our decision?

The application states that the council has stopped or deferred some works including removal of asbestos from ageing buildings and replacing light poles at sports grounds. Also, the council has consistently responded to feedback from its community that it values the current services and aspires to grow the quality of these services.

The application refers to the council working with key stakeholders and neighbouring councils, to improve the efficiency of normal operation (library services, purchasing, etc.) and projects (Rural Councils Transformation Program for a shared information technology and corporate services).

We acknowledge that the council has taken steps to manage its underlying financial position. However, some of the work required – such as asset management planning and service reviews – is still in its early stages. We would expect to see this work further advanced before the council can fully demonstrate it has done all it can to manage its underlying financial position and still has a long-term funding need.

3.3. How were the community views taken into account?

Warrnambool engaged with its community on needs and preferences

The application provides details of several earlier occasions when engagement was undertaken to identify community needs and preferences for services. For instance, the City Centre Renewal Plan (2012–13) used a pop-up shop, an online survey and discussion workshops. Later, the Warrnambool 2040 (2017) community plan for a forward-looking city used active hubs at 13 locations, surveys, a dedicated website and Facebook. Around 3500 people are said to have participated. The application states that the community showed it wanted a ‘new 21st century library and knowledge hub’.¹³ The council responded by advocating successfully for a Victorian Government grant of \$16.5 million towards such a facility.

The application says the council added a local question: ‘How would residents prefer to address funding shortfalls?’ to the state-wide annual Community Satisfaction Survey (2018). Of 400 respondents, most (38 per cent) preferred a rate increase rather than an increase in user fees (34 per cent) or a reduction in services (17 per cent).

Warrnambool engaged with its community specifically on the proposed higher caps

The application summarises Warrnambool’s own survey in January 2019 with 782 responses, undertaken to help prioritise service delivery for 45 different council services. Respondents were given the options of increasing rates or fees, cutting the service or seeking another service provider, in order to address funding shortfalls. The respondents preferred increasing rates only for: bridges; street lights; drainage; parks and gardens; footpaths and roads.

¹³ Warrnambool City Council, *Higher rate cap application*, March 2019.

The application states that three focus groups were organised in February 2019 to review these survey findings. There were 31 moderately representative participants (lacking younger people and families). The council's application states that the focus groups were informed about the recent survey, and were asked for reasons why they would support or oppose one of three options: increase rates, increase fees or cut the service. Responses indicated the council should:

- prioritise services supporting vulnerable members of the community
- increase user fees for non-essential services and services for minorities (e.g. airport fees)
- keep delivering and funding public infrastructure such as roads, paths, bridges and parks
- more strictly review the 'nice to have' services such as beautification projects
- exhaust all other options before seeking a higher rate cap
- not cut basic services that are important for health and well-being, and
- use alternative providers where appropriate.

Overall, we are satisfied the application demonstrates that the council appears to have genuinely attempted to engage with its community on the proposal to apply for higher caps. We recognise that the council responded to unexpected challenges presented in its engagement program by modifying its engagement approach (when it could not get enough participants for the proposed deliberative forums). The council's engagement program was considered, extensive and informed by the council's overarching community engagement policy, which is based on IAP2 recognised standards. The council drew on previous engagement efforts but also engaged specifically on the higher cap application in ways that attempted to reach its community in a representative way.

There are opportunities for Warrnambool to keep engaging with its ratepayers and community on trade-offs

Based on the engagement completed for the higher cap application, as well as previous engagement, there does seem to be a desire from the community for the services provided by the council but there are mixed views as to how they should be funded. We note that recent feedback from the engagement program indicated that finding alternative providers or cutting services were generally preferred, rather than rate increases, although there was also an indication of reluctance to see services reduced. We are not entirely satisfied that the council has exhausted all options available to it, as their ratepayers have called for. The council also acknowledges that the community does not wish for rates to be increased.¹⁴ In weighing up the results from the community engagement efforts, we note that the council recognised that, in a choice between many competing demands, the community would most accept a rise in rates if targeted in the area

¹⁴ Warrnambool City Council, *Response to request for information*, April 2019.

of infrastructure renewal and improvement – which are the stated purposes of the present application.¹⁵

3.4. Do plans, policies, processes show a long-term funding need?

The application includes a range of financial and strategic planning documents. These include a 10-year long-term financial plan, draft budget, borrowing strategy, asset management strategy, asset management plans, and community engagement policy.

The application demonstrates that Warrnambool is facing declining financial sustainability over the long-term; but it does not demonstrate that Warrnambool has fully considered actions to address its declining financial sustainability.

However, we note that Warrnambool should prioritise developing a better understanding of the required services and service levels and assets required to support those services and service levels. This should be informed by community engagement around the community's needs, preferences and capacity and willingness to pay.

Advice from Deloitte notes:

It is clear that Warrnambool needs to improve its financial performance. In fact, even if the rate cap increase it has sought was approved, it will still likely need to make further improvements. These would necessarily need to take the form of increased revenue from user charges, review of service levels, and improvements in overall efficiency.¹⁶

3.5. Our decision

To justify a permanent increase in the rate base, an application must demonstrate a long-term financial need in line with the six legislative matters in section 185E(3) of the Local Government Act 1989.

Warrnambool's application seeks very significant rate increases over the next three years which would see average rates increase by over 14 per cent by 2021–22. In reviewing the council's application, we have reached the following conclusions:

- the council is clearly facing an imbalance between its spending priorities and the revenue it has available.

¹⁵ Warrnambool City Council, *Response to request for information*, April 2019.

¹⁶ Deloitte Access Economics, *Assistance with review of 2019–20 rate cap application – Warrnambool City Council*, May 2019, p. 6.

How did we reach our decision?

- the council has initiated — but not completed — various programs to review its spending priorities, the opportunities for greater efficiency in service delivery, and alternative revenue options.
- Warrnambool ratepayers are paying rates that are broadly in line with those paid by ratepayers in similar councils, however, council expenditure (per ratepayer) is higher than in similar councils.
- the council has demonstrated a strong commitment to engaging with the community but the findings of those efforts are inconclusive.

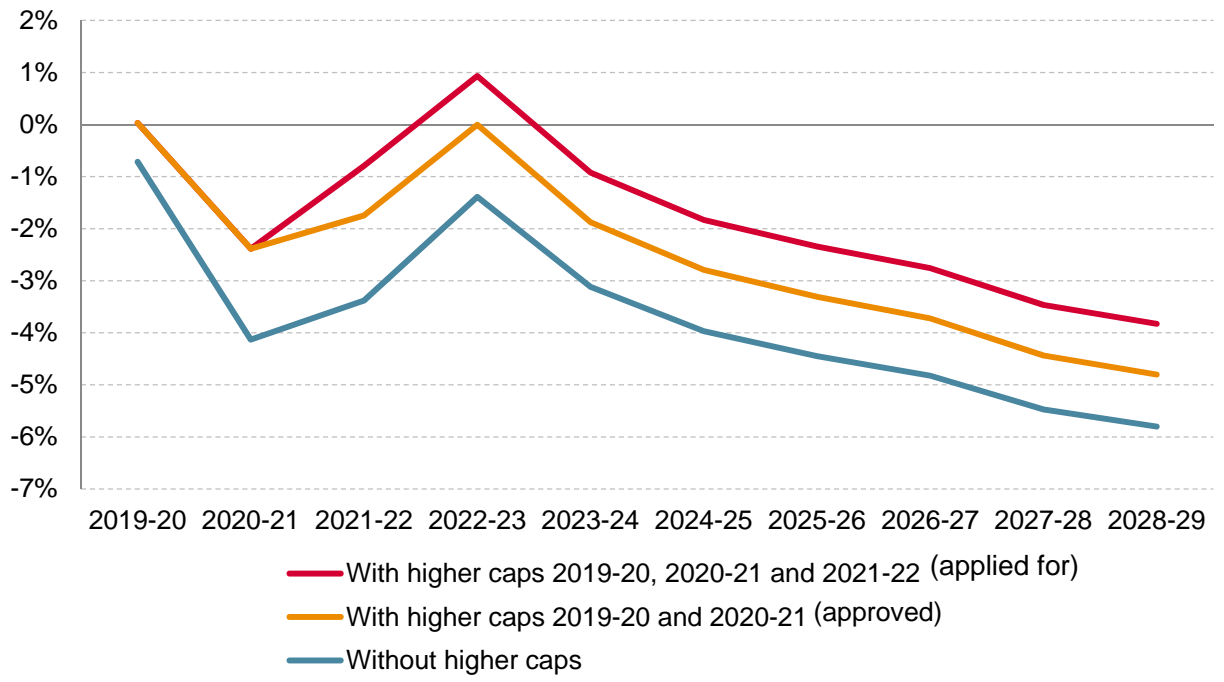
The council's financial modelling shows that the sought-after rate increase only serves to postpone (by about two years) an ongoing deterioration in council's financial sustainability. While we recognise that Warrnambool's application identifies significant challenges, too many questions remain unanswered about how the council proposes, at a minimum, to stabilise its financial sustainability over the medium term. In the absence of that information, we have concluded that it would be inappropriate for us to approve-in-full the higher caps proposed by the council. The long-term consequences of the rate increases need to be clear if ratepayers are to be asked to bear that financial burden.

Nonetheless, it is also clear that the council faces immediate and ongoing funding pressures under any likely future scenario.

For these reasons, we have approved higher caps for Warrnambool City Council of 4.5 per cent in both 2019–20 and 2020–21, but not in 2021–22. Over this two year period, we expect council to continue its program of service reviews and community engagement as it strives to identify a pathway to financial stability.

We have estimated the adjusted underlying result with higher caps in 2019–20 and 2020–21 assuming that total operating expenditure does not change (Figure 2).

Figure 2 Adjusted underlying result – with and without higher cap for two or three years



Appendix A: Summary of communications with Warrnambool City Council

Warrnambool City Council submitted its application for a higher cap on 31 March 2019. In response to its application, we sought additional information from Warrnambool. Warrnambool's application and its response to our requests for further information can be found on our website.

Table A1 Communications between Warrnambool and the commission

Date (2019)	Nature of communication
31 March	Warrnambool submitted its higher cap application
1 April	We acknowledged receipt of Warrnambool's higher cap application
9 April	We contacted Warrnambool with a request for information
17 April	Warrnambool submitted its response to our 9 April request
30 April	We contacted Warrnambool with a question about its higher cap application
3 May	Warrnambool responded to our 30 April request
7 May	We contacted Warrnambool with a question about its higher cap application
8 May	Warrnambool responded to our 7 May request
13 May	We contacted Warrnambool with a question about its higher cap application
13 May	Warrnambool responded to our 13 May request

Appendix B: Summary of legislative matters

Table B1 summarises our observations on how Warrnambool'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	<p>The council proposed a higher cap of 4.50 per cent for three years</p> <p>Warrnambool applied for higher caps of 4.50 per cent for 2019–20, 2020–21 and 2021–22. This is 2.00 percentage points above the 2.50 per cent cap set by the Minister for Local Government for 2019–20.^a</p> <p>Warrnambool estimated that the additional 2.00 per cent above the minister's rate cap for 2019–20 would generate additional revenue of approximately \$655,000 in 2019–20 or, on average, \$37 per rateable assessment.^a</p> <p>The overall effect of the proposed higher caps over the three years would be approximately \$4.12 million.^a This estimate is based on the assumption that the minister's rate cap would be 2.50 per cent in 2020–21 and 2021–22.^a This estimate takes into account the permanent increase to the rate base from each higher cap, which continues to compound each subsequent year.</p>
185E(3)(b) — reason(s) for which the council seeks the higher cap	<p>The additional revenue is to maintain services and assets</p> <p>The application states that the council would use the additional revenue to maintain services and assets.^b</p> <p>The application notes that the council would allocate the additional revenue to asset renewal in 2019–20 and 2020–21, and a combination of asset renewal and operational costs for a new library in 2021–22.^c</p> <p>In 2019–20, the council would allocate the additional revenue to the renewal of the following asset types:</p> <ul style="list-style-type: none"> • bridges: \$55,000 • footpaths and cycleways: \$494,000 • parks, open spaces and streetscapes: \$106,000.^a <p>The application states that the council has an asset renewal gap of approximately \$16.5 million. With the proposed higher caps, the asset renewal gap would reduce to less than \$6 million by 2029. Without the higher caps, the asset renewal gap would grow to more than \$25 million by 2029. The application also states that without the higher caps, the council forecasts that it would be financially unsustainable and would experience ongoing and worsening financial deficits.^d</p> <p>The application states that \$31 million (five per cent) of assets in Warrnambool are in poor or very poor condition and require renewal.^e</p>

[Continued next page](#)

Table B1 (continued)

Legislative matter	Summary
185E(3)(b) (continued)	<p>The need for a higher cap stems from increased demand for services and reduced own-source income</p> <p>As causes of the council’s need for a higher cap, the application identifies some key factors that affect its financial position.</p> <p>Structural anomaly</p> <p>The application states that the council is faced with an ‘anomalous geographic and structural composition’. It is a provider of regional services but a structural anomaly arising from amalgamation has resulted in a constrained rate base for the range of services provided.^f</p> <p>Diminishing income</p> <p>The application states that the council is experiencing diminishing income due to commercial competition and changed patterns of use. Some examples include:</p> <ul style="list-style-type: none"> • Reduction in user fees from children’s services and child care due to increased competition from commercial and not-for-profit providers. • Reduction in income from saleyards due to increased competition, increased renewal demands, and changed animal care standards. • Reduction in income from Flagstaff Hill Maritime Village due to declining attendance.^g <p>Cost shifting</p> <p>The application states that the council is experiencing cost shifting for various services and assets. Some examples include:</p> <ul style="list-style-type: none"> • State and Commonwealth governments have imposed additional costs and responsibilities on the council for home and community care, maternal and child health, library services and school crossing supervision. • VicRoads gifted several sections of ‘typically poor condition’ road to the council in early 2019. • The council manages some assets on behalf of the State: Port of Warrnambool, Reid Oval, Flagstaff Hill Maritime Village, Lake Pertobe precinct. The council provides large amounts of ongoing capital for these assets.^h
185E(3)(c) — how the views of ratepayers and the community have been taken into account in proposing the higher cap	<p>The council has established engagement practices and sought to identify community requirements and preferences</p> <p>The council established a Community Engagement Policy in March 2014 (reviewed June 2017), based on IAP2 recognised standards.ⁱ It has consulted its community over time on relatively long-term issues and visions for the future, and on detailed plans for assets and strategies, such as Lake Pertobe,^j the Botanic Gardens^k and Active Warrnambool.^l</p>

Continued next page

Table B1 (continued)

Legislative matter	Summary
185E(3)(c) (continued)	<p data-bbox="488 309 1310 342">The council consulted the community on major projects</p> <p data-bbox="488 365 1390 465">The application itself includes several specific plans for development and renewal with significant (but undetailed) references to community engagement. They include:</p> <ul data-bbox="488 477 1417 913" style="list-style-type: none"><li data-bbox="488 477 1374 611">• an award-winning City Centre Renewal plan (2012–13) for higher standard of infrastructure and service, engaging with 100–200 people by means of a pop-up shop, an online survey and workshops, etc^m<li data-bbox="488 611 1406 745">• the Warrnambool Harbour Master Plan (2018), for the improvement of (state-owned) public boating facilities – both commercial and recreational – in line with existing strategic plans, and generating 170 stakeholder and community responses,ⁿ and<li data-bbox="488 745 1417 913">• Warrnambool 2040 (2017) community plan for a forward-looking city having a ‘new 21st century library and knowledge hub,’ with engagement with about 3500 people (through Active hubs at 13 locations, with 1,941 attendees, 1,779 surveys completed, a website with 4,474 page views, Facebook with an audience over 100,000).^o <p data-bbox="488 936 1382 1059">From the above, it appears that engagement confirmed community interest in council-funded services and the assets that support them, but may have provided limited information and discussion of revenue options.</p> <p data-bbox="488 1093 1382 1171">The council conducted specific engagement on the proposed higher caps</p> <p data-bbox="488 1193 1417 1384">The application refers to the state-wide Community Satisfaction Survey (2018) to which the council added a local question: ‘How would residents prefer to address funding shortfalls?’ Of 400 randomly selected respondents, 38 per cent said they would prefer a shortfall to be met by a rate increase, while 34 per cent preferred an increase in user fees and 17 per cent a reduction in services.^p</p> <p data-bbox="488 1406 1417 1541">The application states that the council foreshadowed a possible higher cap application in the 2018 Strategic Resource Plan review (three years with a 2.00 per cent variation). It states that the council did not receive any formal submissions in response to the proposed variation.^q</p> <p data-bbox="488 1563 1417 1821">The application links to a local newspaper poll that the newspaper describes as ‘unscientific’ which was held in December 2018, immediately before the council decided to inform the commission of its intention to seek a higher cap.^r On the question of a rate rise, by a 497:56 margin respondents to the poll indicated they did not support it. On the question of a rate increase or a service cut, by a 59:52 margin the respondents preferred the service cut, but 347 preferred the council to find other efficiencies.</p>

Continued next page

Table B1 (continued)

Legislative matter	Summary
185E(3)(c) (continued)	<p data-bbox="485 309 588 342">Survey</p> <p data-bbox="485 360 1418 696">The application summarises the council’s own survey, conducted online through January 2019 and generating 782 responses.^s The survey listed 45 council services that call for different mixes of operational and asset-renewal costs. Respondents identified community groups (migrants, elderly, etc.) that they want prioritised,^t services they most value,^u and services for which the council could seek other providers.^v For each service, the results show whether respondents preferred to increase rates, increase fees, cut the service or seek alternative provider. There was support for increasing rates for only:^w</p> <ul data-bbox="485 707 863 913" style="list-style-type: none"> • bridges • street lighting • drainage and stormwater • parks and gardens • footpaths • roads. <p data-bbox="485 936 1418 1104">Serving as feedback to engagement participants, we note that the council published online a report of the results of its January survey. The feedback report included the text of the information and questions provided to respondents, their responses – collated and analysed by age group.^x</p> <p data-bbox="485 1137 683 1171">Focus groups</p> <p data-bbox="485 1189 1418 1491">The application states that three focus groups were organised in February 2019,^y to review the survey findings (instead of the planned deliberative workshop, for which there were insufficient participants). The council organised this as a trade-off engagement to help prioritise service delivery. There were 31 participants, moderately representative but with ‘...a notable absence of younger people in the room and people with young families.’ The focus groups were informed about the recent survey then asked why they would support or oppose one of three options: increase rates, increase fees or cut the service.^z</p> <p data-bbox="485 1503 1418 1603">The application states that the focus groups provided greater insight into how decisions could be made about which services they do or do not continue to provide:</p> <ul data-bbox="485 1615 1418 1926" style="list-style-type: none"> • Prioritise the delivery of services which support the most vulnerable members of the community. • Increase user-pays for services which benefit a smaller number of the community i.e. create airport user and landing fees • Continue to lead the delivery and funding of public infrastructure such as roads, paths, bridges and parks. • Strengthen how the council prioritises spending on what participants consider ‘nice to have’ items such beautification projects.^{aa}

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Table B1 (continued)

Legislative matter	Summary
185E(3)(c) (continued)	<p>Focus groups (continued)</p> <p>It is unclear whether the council provided feedback to participants (or the broader community) on the results of the focus group sessions.</p> <p>The application also states that key messages from the focus groups for the council are:</p> <ul style="list-style-type: none"> • Exhaust all other options before seeking a variation to the rate cap increase. • Increase user-pays fees for non-essential services • Not cut basic services that play an important part in health and well-being of the community • Use alternative providers where appropriate.^{bb} <p>From the above, it appears that the newspaper poll, whilst not a part of the council’s direct engagement, showed that readers of that paper were opposed to a higher cap. Other forms of recent engagement found limited support for a higher cap, particularly for maintaining those assets that are the subject of the council’s application being roads, footpaths and cycleways, and parks, open space & streetscapes.</p>
185E(3)(d) — how the higher cap is an efficient use of Council resources and represents value for money	<p>The council has processes to achieve good value for money</p> <p>The council has a Procurement Policy incorporating or referencing relevant standards and controls that promote Best Value Principles. The council reports annually on its achievements in this regard, as required by s. 208B of the Act.^{cc}</p> <p>The application shows that the council works with stakeholders to improve efficiency and economy; it refers to being a ‘cornerstone’ member of the Corangamite Regional Library Corporation, working with neighbouring councils on establishing common information systems, and using common procurement systems.^{dd}</p> <p>The application states that Warrnambool’s average rate per property assessment is close to the average for other councils, while its dependence on rate revenue is the lowest for all Victorian regional cities.^{ee}</p> <p>The council conducts service reviews, and the application identifies some savings</p> <p>The application states that the council initiated a comprehensive service-planning review of its services in 2013–15 to establish quality and cost standards and the rationale for provision of each service. This review has informed decisions about the scope of services provided to the community. The application also states that the council subsequently reviewed the need for a range of individual services.^{ff}</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(d) (continued)	<p>The council conducts service reviews, and the application identifies some savings (continued)</p> <p>The application describes the service review that led to the discontinuance of the Fun4Kids event. This has freed up funds estimated at \$100,000 for other events through the year, and consolidated savings estimated at \$255,000.⁹⁹ Another service review of a major attraction for visitors, Flagstaff Hill Maritime Village, generated five proposals for upgrades requiring investment of up to \$26 million. A final decision has not yet been made, and the current net operating cost is \$859,000.^{hh}</p> <p>The application identifies a range of recent cost-savings included in the council's efficiencies and improvements reports. Some examples include:</p> <ul style="list-style-type: none"> • electronic rate notices: \$6,000 annual saving • automated invoice upload: \$45,000 and 14 days annual saving • renegotiated cleaning contract: \$170,000 annual saving • better mobile phone plans: \$13,000 annual saving • reduced staff at aquazone: \$80,000 annual saving • reduced level of customer service: \$64,000 annual saving • introduced food organics garden organics collection: \$66,000 annual saving.^{ii,jj}
185E(3)(e) — whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate	<p>The council has considered reprioritising proposed expenditure</p> <p>As stated above [185E(3)(d)], the council has started a process that established a framework for systematic review of all its services: their effectiveness and affordability, with a view to balancing and optimising delivery.^{kk}</p> <p>As stated above [185E(3)(c)], the council in 2018 asked respondents to the Community Satisfaction Survey how they would prefer to address funding shortfalls. By a narrow majority, respondents preferred higher rates to higher fees or reduced services.^{ll}</p> <p>The application states that the council has reprioritised efforts and has stopped or deferred some works: removal of asbestos from ageing buildings and replacing light poles at sports grounds.^{mm}</p> <p>The application states that the council has consistently responded to feedback from its community that it values the current services and aspires to grow the quality of these services.ⁿⁿ</p>

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Table B1 (continued)

Legislative matter	Summary
185E(3)(e) (continued)	<p data-bbox="485 309 1294 342">The council has considered alternative funding options</p> <p data-bbox="485 360 1412 562">The application states that the council has increased some user fees in recent years: parking, pet registration, itinerant trading and sports grounds. It also states that the council has limited ability to increase some user fees due to competition and the community’s capacity to pay for: saleyards, lighthouse theatre, community centre and the aquatic centre.^{oo}</p> <p data-bbox="485 580 1412 680">The application states that the council has sold several parcels of land in recent years. It now has limited surplus land, but is considering the sale of up to five parcels of land subject to community views.^{mmm}</p> <p data-bbox="485 698 1412 965">Warrnambool has a borrowing strategy to guide the use and management of debt. The application states that Warrnambool has considered, and is using borrowings, to address its renewal issues and is committed to the use of borrowings for intergenerational renewal projects.^{kk} This is consistent with Warrnambool’s borrowing strategy.^{pp} The application also states that Warrnambool has some further capacity in its borrowings but this is likely to be utilised for major renewal and road projects in the mid-term.^{kk}</p> <p data-bbox="528 985 1385 1164" style="padding-left: 40px;">Deloitte notes that ‘the council has low levels of debt and could borrow to address backlog asset renewal needs. This would likely adversely impact on its annual operating result (higher interest costs) unless there was a corresponding offsetting maintenance saving.’^{qq}</p> <p data-bbox="485 1184 1412 1256">The application states that Warrnambool considers alternative service providers where appropriate. Some examples include:</p> <ul data-bbox="485 1265 1412 1574" style="list-style-type: none"> <li data-bbox="485 1265 1412 1397">• Warrnambool puts out to tender the collection and processing of waste, recyclables and Food Organics Garden Organics (FOGO). This means the council does not have to maintain a fleet of trucks, so reducing costs. <li data-bbox="485 1406 1412 1507">• Warrnambool outsources periodic road resealing works. This means the council does not have to maintain a work force, plant and equipment across the entire year. <li data-bbox="485 1516 1412 1574">• Warrnambool pursues shared service opportunities with neighbouring councils and other organisations.^{oo}

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Table B1 (continued)

Legislative matter	Summary
<p>185E(3)(f) — that the assumptions and proposals in the application are consistent with the council's long-term strategy and financial management policies set out in the council's planning documents and annual budget</p>	<p>The council's application is supported by its planning</p> <p>The application includes the following documents in support of the proposed higher caps:</p> <ul style="list-style-type: none"> • Long-Term Financial Plan 2019–20 to 2028–29^{rr} • Warrnambool 2040^{ss} • Draft Budget 2019–20 (with and without higher caps)^{tt} • Council Plan 2017–21 (revised 2018)^{uu} • Borrowing Strategy^{pp} • Asset Management Policy^{vv} • Asset Management Strategy^{ww} • Pathway Asset Management Plan^{xx} • Bridge Asset Management Plan^{yy} • Port of Warrnambool Asset Management Plan^{zz} • Road Management Plan^{aaa} • Warrnambool Floodplain Management Plan.^{bbb} <p>Warrnambool City Council's Community Engagement Policy^{ccc} and Procurement Policy^{ccc} are also available on council's website.</p> <p>The application is consistent with the council's long-term financial plan and draft budget. The long-term financial plan assumes higher caps of 4.50 per cent in 2019–20, 2020–21 and 2021–22, and rate caps of 2.50 per cent from 2022–23 onwards.^{rr} Similarly, the draft budget (with higher caps) assumes higher caps of 4.50 per cent in 2019–20, 2020–21 and 2021–22, and a rate cap of 2.50 per cent in 2022–23.^{tt}</p>

^a Warrnambool City Council, *Higher rate cap application, Budget Baseline Information template*, March 2019.

^b Warrnambool City Council, *Higher rate cap application*, March 2019, p. 1. ^c Warrnambool City Council, *Higher rate cap application*, March 2019, p. 2. ^d Warrnambool City Council, *Higher rate cap application*, March 2019, p. 4. ^e Warrnambool City Council, *Higher rate cap application, Appendix 7 — State Assets Report*, March 2019, p. 5. ^f Warrnambool City Council, *Higher rate cap application*, March 2019, p. 19. ^g Warrnambool City Council, *Higher rate cap application*, March 2019, pp. 9–16. ^h Warrnambool City Council, *Higher rate cap application*, March 2019, pp. 17–19. ⁱ Warrnambool City Council, *Response to request for information, Community Engagement Policy*, April 2019, p. 4. ^j Warrnambool City Council, *Higher rate cap application, Appendix 9 — Lake Pertobe Masterplan*, March 2019, p. 16. ^k Warrnambool City Council, *Higher rate cap application, Appendix 10 — Botanic Gardens Master Plan*, March 2019, p. 12. ^l Warrnambool City Council, *Higher rate cap application, Appendix 11 — Active Warrnambool Implementation Report*, March 2019, p. 5. ^m Warrnambool City Council, *Higher rate cap application*, March 2019, p. 28. ⁿ Warrnambool City Council, *Higher rate cap application, Appendix 21 — Warrnambool Harbour Master Plan (numbered 9–10)*, March 2019, pp. 11–12. ^o Warrnambool City Council, *Higher rate cap application*, March 2019, pp. 29–30. ^p Warrnambool City Council, *Higher rate cap application*, March 2019, p. 31. ^q Warrnambool City Council, *Higher rate cap application*, March 2019, p. 50. ^r Warrnambool City Council, <https://www.standard.net.au/story/5796970/poll-results-do-you-support-a-warrnambool-city-council-rate-rise/Following/>. ^s Warrnambool City Council, *Higher rate cap application*, March 2019, pp. 24–26. ^t Warrnambool City Council, *Higher rate cap application, Appendix 3 — Let's talk about rates and services*, March 2019, p. 37. ^u Warrnambool City Council, *Higher rate cap application, Appendix 3 — Let's talk about rates and services*, March 2019, pp. 4&6. ^v Warrnambool City Council, *Higher rate cap application, Appendix 3 — Let's talk about rates and services*, March 2019, p. 35. ^w Warrnambool City Council, *Higher rate cap application, Appendix 3 — Let's talk about*

rates and services, March 2019, p. 36. ^x Warrnambool City Council, <https://www.warrnambool.vic.gov.au/sites/warrnambool.vic.gov.au/files/images/press/A%20report%20on%20the%20survey%20results%20-%20including%20correspondence%20A.pdf>. ^y Warrnambool City Council, *Higher rate cap application*, March 2019, p. 27. ^z Warrnambool City Council, *Higher rate cap application, Appendix 4 — Council services discussion* (numbered 3–4), March 2019, pp. 7–8. ^{aa} Warrnambool City Council, *Higher rate cap application, Appendix 4 — Council services discussion* (numbered 1–2), March 2019, pp. 5–6. ^{bb} Warrnambool City Council, *Higher rate cap application, Appendix 4 — Council services discussion*, March 2019, p. 4. ^{cc} Warrnambool City Council, <https://www.warrnambool.vic.gov.au/sites/warrnambool.vic.gov.au/files/documents/council/policies/WCC%20Procurement%20Policy%202017.pdf>. ^{dd} Warrnambool City Council, *Higher rate cap application*, March 2019, p. 7. ^{ee} Warrnambool City Council, *Higher rate cap application*, March 2019, p. 39. ^{ff} Warrnambool City Council, *Response to request for information*, April 2019. ^{gg} Warrnambool City Council, *Higher rate cap application*, March 2019, pp. 15–16. ^{hh} Warrnambool City Council, *Higher rate cap application*, March 2019, pp. 13–15. ⁱⁱ Warrnambool City Council, *Higher rate cap application, Appendix 16 — Smarter service, better service*, March 2019. ^{jj} Warrnambool City Council, *Higher rate cap application, Appendix 17 — Efficiencies and Improvements Report*, March 2019. ^{kk} Warrnambool City Council, *Response to request for information*, April 2019, p. 5. ^{ll} Warrnambool City Council, *Higher rate cap application*, April 2019, p. 31. ^{mmm} Warrnambool City Council, *Higher rate cap application*, March 2019, p. 47. ⁿⁿ Warrnambool City Council, *Higher rate cap application*, March 2019, p. 44. ^{oo} Warrnambool City Council, *Higher rate cap application*, March 2019, p. 41. ^{pp} Warrnambool City Council, *Higher rate cap application, Appendix 23 — Borrowing Strategy*, March 2019. ^{qq} Deloitte Access Economics, *Assistance with review of 2019–20 rate cap application — Warrnambool City Council*, May 2019, p. 5. ^{rr} Warrnambool City Council, *Higher rate cap application, Appendix 1 — Long-Term Financial Plan 2020–2029*, March 2019. ^{ss} Warrnambool City Council, *Higher rate cap application, Appendix 19 — Warrnambool 2040: Our future, our plan*, March 2019. ^{tt} Warrnambool City Council, *Response to request for information, Draft Budget 2019–20*, April 2019. ^{uu} Warrnambool City Council, *Higher rate cap application, Council Plan 2017 21*, March 2019. ^{vv} Warrnambool City Council, *Higher rate cap application, Appendix 28 — Asset Management Policy*, March 2019. ^{www} Warrnambool City Council, *Higher rate cap application, Appendix 28 — Asset Management Strategy*, March 2019. ^{xx} Warrnambool City Council, *Higher rate cap application, Appendix 32 — Pathway Asset Management Plan*, March 2019. ^{yy} Warrnambool City Council, *Higher rate cap application, Appendix 33 — Bridge Asset Management Plan*, March 2019. ^{zz} Warrnambool City Council, *Higher rate cap application, Appendix 29 — Port of Warrnambool Asset Management Plan*, March 2019. ^{aaa} Warrnambool City Council, *Higher rate cap application, Appendix 31 — Road Management Plan*, March 2019. ^{bbb} Warrnambool City Council, *Response to request for information, Draft Budget 2019–20*, April 2019. ^{ccc} Warrnambool City Council, *Higher rate cap application, Community Engagement Policy*, March 2019.

Appendix C: Local government performance indicators

Table C1 Warrnambool City Council's local government performance indicators

Indicators	Average rate cap	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29
Adjusted underlying result (%)	2.50%	-0.7%	-4.1%	-3.4%	-1.4%	-3.1%	-4.0%	-4.4%	-4.8%	-5.5%	-5.8%
	4.50% ^a	0.0%	-2.4%	-0.8%	0.9%	-0.9%	-1.8%	-2.3%	-2.8%	-3.5%	-3.8%
Asset renewal (%)	2.50%	105.0%	81.3%	85.6%	69.8%	65.1%	64.5%	64.9%	65.3%	64.4%	64.8%
	4.50% ^a	109.1%	90.9%	100.0%	83.5%	78.2%	77.1%	77.4%	77.6%	76.3%	76.5%

^a this assumes a higher cap of 4.50 per cent in 2019–20, 2020–21 and 2021–22.

Appendix D: Local government performance 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) **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.