



# TOWONG SHIRE COUNCIL

Decision on application for a higher cap for 2016-17

May 2016

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## 1. OUR DECISION

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

Councils wishing to increase their average annual rates by more than 2.5 per cent in 2016-17 must first obtain approval from the Essential Services Commission (the Commission). We are responsible for approving, rejecting or approving in part the higher cap sought by a council. This paper outlines our decision in response to an application by Towong Shire Council (Towong) for a higher cap of 6.34 per cent (which includes the Minister's rate cap of 2.5 per cent) to apply in 2016-17.

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

The six legislative matters are:

- the proposed higher cap for each specified financial year
- the 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 and
- that the assumptions and proposals in the application are consistent with the council's long-term strategy and financial management policies set out in the council's planning documents and annual budget.

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

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

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

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

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

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

## **BOX 2 COMMISSION'S DECISION ON TOWONG SHIRE'S APPLICATION**

Towong has applied for a higher cap of 6.34 per cent, that is, 3.84 per cent higher the Minister's rate cap for 2016-17.

The Commission has assessed Towong's application and approves its proposed higher cap of 6.34 per cent for 2016-17.

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

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

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

Towong sought a 6.34 per cent rate cap for 2016-17 (inclusive of the Minister's rate cap of 2.5 per cent). Towong estimated that this would result in additional revenue of \$242 860.

Towong submitted that the purpose of the higher cap is to enable Council to continue to provide day-to-day services and infrastructure maintenance and renewal at the modest level required by its residents and ratepayers. The higher cap assumed Towong's long-term financial plan to enable it to be financially sustainable in the short to medium-term.

Towong's application also stated that its long-term financial outlook has been negatively affected by major decisions outside of its control including the freeze of the Federal Government Financial Assistance Grants. This has caused a revenue shortfall of \$658 000 over three financial years 2014-15 to 2016-17.

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

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

Table 1 summarises our observations on each of the relevant matters specified in Towong's application.

**TABLE 1 LEGISLATIVE MATTER SUMMARY**

Legislative matter	Summary
185E(3)(a) — proposed higher cap	The Commission verified that the higher cap was appropriately calculated. <sup>a,b</sup>
185E(3)(b) — reason(s) for which the council seeks the higher cap	<p>Towong's application stated that the funds will be used to provide day to day services and infrastructure renewals at levels required by residents and ratepayers and to ensure financial sustainability in the short to medium-term.<sup>b</sup></p> <p>Council provided sufficient evidence to support its reasons for a higher cap. Council provided financial analysis that suggests its financial position will deteriorate in the medium-term (liquidity will fall into VAGO's high risk band in 2023) without an increase in revenues.<sup>c,d</sup></p>
185E(3)(c) — how the views of ratepayers and the community have been taken into account in proposing the higher cap	<p>Towong's application and supporting documents show that Council appears to have consulted adequately with its community and ratepayers about service levels and its financial situation. This assumed the need for rate rises of around 6 per cent on average annually over the longer term.<sup>e</sup> Towong's application explains that it:</p> <ul style="list-style-type: none"> <li>• Provided a public notice and the opportunity to make submissions (in writing or verbally) about the Council Plan, Budget, Strategic Resource Plan, Long-term Financial Plan, and Asset Management Plan.<sup>f</sup> The Council Plan, Budget, Strategic Resource Plan and Long-term Financial Plan all forecast that rates will increase annually by about 6 per cent over future years.<sup>e,g</sup></li> <li>• Consulted widely with the community prior to the 2015-16 budget about its difficult financial situation and service delivery implications under a cap environment. Council was able to produce consultation outcomes indicating general community acceptance for rate rises of about 6 per cent per year to maintain services at current levels.<sup>h</sup></li> <li>• Used a continuum of engagement methods to consult with the community including workshops, focus groups, one on one meetings, information stands, surveys, web pages, local radio and newspaper and newsletters.<sup>i</sup></li> <li>• Engaged with communities and developed a number of community master plans including "Our Bellbridge", "Tallangatta Tomorrow", "Our Valley Our Future" and "Upper Murray 2030 Vision Plan". The master plans represent the views of the ratepayers and communities about services required. The plans have been used to formulate the 2013-2017 Council Plan and annual budgets.<sup>j</sup></li> </ul>

Continued next page



**TABLE 1 (CONTINUED)**

Legislative matter	Summary
185E(3)(c) (continued)	<ul style="list-style-type: none"> <li>• Used the audit committee to review all longer term planning documents and provide Council with community views.<sup>j</sup></li> <li>• Conducted 'Road Shows' where the Director Technical Services and Asset Engineer visited local communities and spoke to residents about road and related infrastructure. The views obtained from residents have been used to inform the development of asset management plans and intervention levels for assets.<sup>j</sup></li> </ul> <p>We note that Council indicated that it did not consult specifically on its intention to apply for a higher cap in 2016-17. While Towong identified a list of services that could be reduced or ceased to allow it to operate under the Minister's cap, it stated it was unable to consult fully prior to its application. However, Council subsequently indicated that it is willing to consult more on such matters in the future.<sup>k</sup></p>
185E(3)(d) — how the higher cap is an efficient use of council resources and represents value for money	<p>Towong's application indicated that Council performs well against its peers in terms of unit costs to deliver a range of services (data from Know Your Council website) as well as showing higher community satisfaction (State wide community satisfaction survey) more generally.<sup>l</sup> Council has also provided information regarding its initiatives to reduce costs across a range of services and identified efficiency savings of \$145 800 (or 1.1 per cent of total expenditure) in 2015-16.<sup>m</sup></p> <p>Prior to this Towong has achieved other major cost savings over the past six years including:</p> <ul style="list-style-type: none"> <li>• bringing kerbside waste collection back in-house is estimated to save \$1 million over a 7 year period</li> <li>• motor vehicle policy changes and fleet reduction is estimated to save \$130 000 per year</li> <li>• organisational restructure is estimated to save \$250 000 per year and</li> <li>• shared service arrangements between Towong and Indigo Shire Council for rates and property services is estimated to save \$25 000 per year.<sup>n</sup></li> </ul>
185E(3)(e) — whether consideration has been given to reprioritising proposed expenditures and alternative funding options and why those options are not adequate	<p>Towong's application shows that it has considered alternate funding options and service trade-offs. It has considered:</p> <ul style="list-style-type: none"> <li>• borrowing, leasing and special charges</li> <li>• reducing expenditure on roads renewals</li> <li>• reducing expenditure on certain services so as to meet the Minister's cap of 2.5 per cent and</li> <li>• utilising cash reserves to fund an increasing underlying deficit</li> </ul> <p>Council also provided reasons about why these options are not suitable:</p> <ul style="list-style-type: none"> <li>• under the current circumstances borrowing, leasing, and special charges are not suitable ways to fund service delivery. Council uses borrowings for projects with intergenerational benefits and not to fund day to day operational needs. There are no major plant or equipment purchases planned in 2015-16 so consequently there is no need for lease arrangements. There are no projects planned in 2016-17 that meet the criteria for a special charge under the Local Government Act</li> </ul>

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**TABLE 1 (CONTINUED)**

Legislative matter	Summary
185E(3)(e) (continued)	<ul style="list-style-type: none"> <li>• reducing expenditure on roads renewals to a level that can be accommodated under the cap results in road conditions that are unacceptable to the community</li> <li>• reducing expenditure on some services to levels that can be accommodated under the cap may be of concern to both staff and the community and</li> <li>• utilising cash reserves is expected to cause financial sustainability concerns in the short-term.</li> </ul> <p>We consider the reasons given by Council for not adopting these options appears to be reasonable.</p> <p>As noted earlier Towong identified a list of services that may be reduced or ceased to allow it to operate under the Minister's cap.</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>Towong's application included:</p> <ul style="list-style-type: none"> <li>• a range of masterplans for some communities</li> <li>• strategies to promote tourism and agriculture</li> <li>• Road Management Plan</li> <li>• Council's Plan</li> <li>• Council's Budget</li> <li>• Annual Report (2014-15)</li> <li>• Long-term Financial Plan.</li> </ul> <p>The masterplans, strategies and road management plan inform the planning documents that are based on an annual rate rises of about 6 per cent.<sup>i</sup></p>

<sup>a</sup> Towong Shire Council 2016, *Budget Baseline Template*, March. <sup>b</sup> Towong Shire Council 2016, *Application for a higher cap, the statement*, March, p. 1. <sup>c</sup> The Victorian Auditor-General's Office (VAGO) define the liquidity ratio as current assets divided by current liabilities. <sup>d</sup> Towong Shire Council 2016, *Application for a higher cap, the statement*, March, pp. 5-6. <sup>e</sup> Towong Shire Council 2016, *2015-16 Budget*, p. 6. <sup>f</sup> Towong Shire Council 2016, *Application for a higher cap, the statement*, March p. 8. <sup>g</sup> Towong Shire Council 2016, *Application for a higher cap, Towong Shire Council LTFP - Budget 2016-17 - FINAL @ 6.34%*, March. <sup>h</sup> Towong Shire Council 2016, *Response to Request for Information — Essential Services Commission*, April p. 3. <sup>i</sup> Towong Shire Council 2016, *Application for a higher cap, the statement*, March. <sup>j</sup> Towong Shire Council 2016, *Application for a higher cap, the statement*, March, pp. 8-10. <sup>k</sup> Towong Shire Council 2016, *Response to Request for Information — Essential Services Commission*, April, p. 5. <sup>l</sup> Towong Shire Council 2016, *Application for a higher cap, the statement*, March, pp. 11-12. <sup>m</sup> Towong Shire Council 2016, *Application for a higher cap, the statement*, March, p. 5. <sup>n</sup> Towong Shire Council 2016, *Application for a higher cap, the statement*, March, pp. 4,12-13. <sup>o</sup> Towong Shire Council 2016, *Application for a higher cap, the statement*, March, pp. 15-19.

### 3.1 ASSESSMENT

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

Taking into account all of the relevant factors above, we consider that the higher cap is appropriate for the reasons discussed below.

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

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

We have examined Towong's underlying financial position. Towong's forecasts of the effects on its Local Government Performance Reporting Framework (LGPRF) financial indicators (under both 'with' and 'without' higher cap scenarios) show that Towong operates with a negative adjusted underlying result in the short and medium-term (table 2).

Towong has shown through its long-term financial planning (covering the period 2017 to 2032) that it will need to increase rates by about 6 per cent per year to remain financially sustainable and continue to deliver services at current levels. Towong's application supported its claim that if it fails to generate sufficient revenue to offset operating expenses over the longer term, this may lead to a reduction in service levels. Council may also not be in a position to undertake major asset renewal and replacement when required. Towong consulted on the higher rate increase prior to adopting its 2015-16 budget and its application indicated that there was general acceptance among the community.

Our analysis shows that Towong has pursued and achieved savings from a range of initiatives. LGPRF indicators show that Towong has lower unit costs to deliver a range of services than the average of comparable councils.

**TABLE 2 LOCAL GOVERNMENT PERFORMANCE REPORTING FRAMEWORK INDICATORS**

LGPRF indicator <sup>a</sup>	2014-15 (Actual)	2015-16 (Forecast Actual)	2016-17 (Forecast)	2017-18 (Forecast)	2018-19 (Forecast)
<b>Operating position</b>					
<b>Adjusted underlying result<sup>b</sup> (%)</b>					
pre-FGRS	26.57	-13.29			
'without' higher cap (a)			-3.69	-7.06	-4.20
'with' higher cap (b)			-3.13	-5.03	-0.79
difference (b-a)			0.56	2.03	3.41

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

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

Towong's application showed that Council is pursuing a broad range of actions within its control in order to deliver services that meet community expectations. Towong's application included:

- its long-term financial model that shows how its financial position is affected by different revenue and expenditure scenarios
- a range of initiatives it has undertaken to reduce costs
- a number of alternative funding arrangements that were considered and provided reasons why these were not appropriate and
- a number of engagement forums with the community on its financial situation and how different rating scenarios would affect service delivery.

Based on our analysis of Towong's application, we consider that Council has demonstrated a need for a higher cap in 2016-17 to maintain financial sustainability in the longer term.

## **MONITORING OF OUTCOMES**

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

## APPENDIX A: SUMMARY OF COMMUNICATIONS WITH TOWONG

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

**TABLE 3 COMMUNICATIONS BETWEEN TOWONG AND THE COMMISSION**

Date	Nature of communication
31 March	Towong submitted its application
4 April	Towong amended cover sheet and forwarded to the Commission
8 April	Towong and the Commission met to have a preliminary discussion about the application
15 April	Commission issued Towong a request for information (RFI)
19 April	Towong contacted Commission to clarify questions in RFI
19 April	Commission responded to Council query on RFI
29 April	Towong submitted its response to the RFI
2 May	Towong submitted an updated baseline information template to the Commission
5 May	Commission contacted Towong to clarify calculation of higher cap related figures
5 May	Commission sent follow-up questions related to Towong's response to the RFI
6 May	Towong responded and clarified the higher cap calculation query
6 May	Towong responded to the Commission's 5 May request for some clarifications
9 May	Commission sent query to Towong in relation to its capital expenditure
11 May	Towong responded to the Commission's request in relation to its capital expenditure

## APPENDIX B: LGPRF INDICATOR DEFINITIONS

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

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

**Adjusted underlying surplus** is adjusted underlying revenue less total expenditure.

Assistance with  
review of 2016-17  
rate cap variation  
applications

Shire of Towong

Essential Services  
Commission

May 2016



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# 1 Shire of Towong

## 1.1 Project background

In 2015 the Essential Services Commission (ESC) was appointed by the Victorian Government to undertake an independent inquiry and provide advice on the introduction of a rates capping framework for local government.<sup>1</sup>

Following the release of the ESC's final report in October 2015, the Victorian Government established the Fair Go Rates System (FGRS) which limits the maximum amount councils may increase rates in a year without seeking additional approvals. The rate cap set by the Minister under the FGRS for 2016-17 is 2.5% for all councils.

Under the FGRS, councils can apply to the ESC for a higher cap in circumstances where the rate cap is insufficient for their specific needs. Ten local governments submitted applications for 2016-17 rate cap variations for the ESC's consideration.

The ESC has engaged Deloitte Access Economics to provide assistance with the review of the rate cap variation applications that have been submitted, to inform the ESC's decisions.

This report provides a summary of Deloitte Access Economics' review of the documentation submitted by the Shire of Towong in its application for a rate cap variation. This includes:

- an overview of the council's circumstances and their application;
- an assessment of the financial performance, position and outlook for the council; and
- concluding remarks.

This report should be read in conjunction with the Guidance Note prepared for the ESC, which sets out the key factors that Deloitte Access Economics has considered in its assessments of the applications for rate cap variations for 2016-17 and the rationale for the basis of the analysis.

## 1.2 Overview

Towong is a small rural council with a population of 5,900 and above average levels of social disadvantage. It is very aware of the importance of operating in a financially sustainable manner and the particular challenges for similar councils in so doing. In its application it cites an extensive list of measures it has already taken to reduce long-run costs and enhance its financial performance and position. Because of its actions to date it claims that it would find it harder than many councils to materially reduce costs further without significant adverse impact on community-preferred service levels.

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<sup>1</sup> State Government of Victoria, Local Government Rates Capping Framework Review, <http://www.vic.gov.au/news/local-government-rates-capping-framework-review.html>

In order to improve financial sustainability it has also been increasing average rate levels at between 4% and 6% per annum over the past 5 years.

Towong recognises the socio-economic circumstances of its community but believes residents and ratepayers would prefer rate increases in excess of the cap rather than noticeably reduced service levels. It has applied for a rate increase of 3.84% above the 2.5% rate cap. Its budgeted income for 2015-16 is \$15.0 million of which approximately half is from rates and charges. It estimates that the above the cap rate increase it has sought would generate additional revenue of \$242,000 in 2016-17.

Towong argues that an increase beyond the cap is needed to maintain financial sustainability and general service levels and in particular to enable it to undertake infrastructure asset maintenance and renewal at the levels it (and its asset management consultant) believe is warranted.

It has included in its proposal its projected performance for the Victorian Auditor General’s Office (VAGO) ‘financial sustainability risk’ indicators assuming rates are limited to an assumed 2.5% cap over time. This is shown in the figure below.

**Figure 1.1: Projected performance against indicators assuming 2.5% rates cap**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Underlying result (1yr)	-22%	17%	-13%	-7%	-7%	-7%	-7%	-7%	-9%	-9%	-10%	-10%	-11%
Underlying result (4yr)	-13%	-7%	-2%	-5%	-1%	-8%	-7%	-7%	-7%	-8%	-9%	-9%	-10%
Liquidity	3.97	6.33	5.13	4.83	4.65	4.21	3.40	2.29	1.25	(0.08)	(1.37)	(2.95)	(4.53)
Self financing	32%	61%	36%	37%	27%	26%	21%	20%	19%	19%	18%	17%	17%
Indebtedness	4%	6%	2%	18%	17%	16%	16%	15%	14%	13%	12%	11%	11%
Capital replacement (1yr)	1.69	1.38	2.15	1.72	1.02	1.15	1.15	1.28	1.20	1.34	1.27	1.42	1.36
Capital replacement (4yr)	1.42	1.50	1.75	1.74	1.57	1.50	1.25	1.15	1.19	1.24	1.27	1.31	1.35
Accounting Renewal gap (1yr)	1.41	0.77	0.88	-	0.97	1.04	1.09	1.12	1.15	1.18	1.22	1.26	1.31
Accounting Renewal gap (4yr)	1.12	1.18	1.14	0.76	0.66	0.73	0.78	1.06	1.10	1.14	1.17	1.20	1.24

Source: Towong Shire Council application for a higher cap – The Statement, page 6, 2016

The council has also prepared projections showing forecast results for these indicators assuming ongoing rating increases of 6.34% per annum.

**Figure 1.2: Projected performance against indicators assuming 2.5% rates cap**

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Underlying result (1yr)	17%	-13%	-3%	-5%	-1%	0%	1%	2%	3%	4%	6%	7%
Underlying result (4yr)	-7%	-2%	-4%	0%	-5%	-2%	-1%	0%	1%	3%	4%	5%
Liquidity	6.33	4.93	5.16	5.04	5.09	4.74	4.27	3.99	3.59	3.40	3.12	3.35
Self financing	61%	36%	40%	28%	30%	25%	25%	26%	26%	27%	28%	28%
Indebtedness	6%	1%	16%	14%	12%	10%	9%	7%	5%	4%	2%	2%
Capital replacement (1yr)	1.38	2.15	1.58	0.97	1.10	1.10	1.24	1.16	1.30	1.23	1.38	1.32
Capital replacement (4yr)	1.50	1.75	1.71	1.52	1.44	1.18	1.10	1.15	1.20	1.23	1.27	1.31
Accounting Renewal gap (1yr)	0.77	0.88	-	0.97	1.04	1.10	1.13	1.16	1.19	1.23	1.28	1.32
Accounting Renewal gap (4yr)	1.18	1.14	0.76	0.66	0.73	0.79	1.06	1.11	1.15	1.18	1.22	1.26

Source: Towong Shire Council application for a higher cap – The Statement, page 6, 2016

Deloitte Access Economics has some reservations regarding the VAGO suite of ‘financial sustainability risk indicators’ and suggested target range outcomes as a basis for setting and judging a local government’s financial strategy and performance. Nevertheless in Towong’s case the projected indicator results do provide a clear picture of the scenarios faced and their implications.

## 1.3 Assessment of financial performance, position and outlook

Unlike the Local Government Performance Reporting Framework (LGPRF) 'adjusted underlying result' the VAGO 'underlying result' includes cash contributions from developers for capital projects in the calculation of both the numerator and denominator. Towong does not anticipate any revenue from such sources over the period of its current long-term financial plan. The VAGO and LGPRF indicators should therefore yield very similar 'underlying result' outcomes.

It is clear that Towong will not be able to operate in a sustainable way in future without significant additional revenue and/or cost reductions. Opportunities for additional revenue from sources other than rates (for example operating grants) are likely to be difficult to realise in the current climate. Given that Towong has already actively pursued and realised noteworthy savings initiatives it is reasonable to assume that further material operating cost reductions would be hard to realise without reductions in service levels.

If Towong fails to generate sufficient revenue to offset operating expenses on average over the long-term this will lead to a reduction in service levels regardless of whether the council plans for this or not. At some point in the not too distant future it would simply not be in a position to undertake major asset renewal and replacement as and when warranted.

It is important to note that the above projections suggest that Towong will need rate increases beyond the cap over several years. How many would depend on a range of factors. For example Towong's long-term financial plan currently assumes that the Commonwealth's 'Roads to Recovery' program will not be renewed after the current date of expiration of 2018-19. However, the program has previously been extended and this may possibly occur again. The program currently provides moneys equivalent to about 4% of total income in a 'normal' year.

It is also important to note that a council can usually maintain service levels in the short to medium term even with an operating deficit. Towong could for example operate without negative service level impacts in the near future if an increase beyond the rate cap was not approved for 2016-17.

Towong has low levels of debt. It could borrow more if liquidity became a problem but this would not be a long-term solution to the challenges the council faces. Ultimately income needs to be generated to offset service level costs. Borrowings are not income but they can help offset timing imbalances between outlays and income receipts. Strategic use of debt could be a small part of the solution over time if additional cash was needed (for example to carry out essential asset renewal outlays) but only if Towong was committed and able to address its adverse projected operating result over the medium term.

Towong is forecasting that it would have liquidity problems within about 7 years without an ongoing increase in rates beyond the cap. In reality it would be more likely that it would take other measures before this occurred, for example by reducing outlays on asset management.

Towong highlights the importance to its community of maintaining service levels from infrastructure assets. It has been undertaking asset management spending in the recent past at levels that it believes is appropriate to maintain service levels. Its long-term financial plan projections suggest that it is proposing to continue to do so in future. It is quite possible though that its future financial circumstances may dictate some reduction in future asset management outlays.

The relationship between service levels and long-run asset management costs and of outlay levels and their timing that minimises whole of life asset costs is not an exact science. Understandings and approaches in these regards in the local government environment are still evolving and improving. It is possible that in future Towong may be able to make some modest savings in the level of its asset management outlays without noticeable impact on service levels.

## 1.4 Concluding remarks

Towong could get by in 2016-17 without an increase in rates beyond the cap and without adverse impacts on service levels. It appears highly likely though that within the next few years it will need to either generate more income and/or make further savings that will impact somewhat negatively on service levels.

Towong has already made cost savings in a range of areas that are in excess of what is yet common elsewhere. Even if the sought after rate increase for 2016-17 was approved Towong would still need to seek further revenue increases in future if service level expenditure cutbacks were to be avoided. A future application for further rate increases beyond 2016-17 is therefore possible in due course.

# Limitation of our work

## Limitations

This work is not a substitute for independent financial modelling of scenarios with and without rate cap variations for each council. This work has been limited only to the review of application-related documentation submitted by councils seeking a rate cap variation and time available.

This work takes as given the financial and other data, calculations and analysis provided in the application-related documentation. It does not constitute an audit or test to verify the validity of the underlying financial data upon which the applications are based. We have not been given access to the underlying spreadsheet models, except to the extent that these have been provided as part of applications. Our analysis has not confirmed the calculations within the applications. We have not used or sought data from any other sources, except to the extent that this is cited as such in the report.

## General use restriction

This report is prepared solely for the use of the Essential Services Commission. This report is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The report has been prepared for the purpose of assisting the Essential Services Commission with the review of 2016/17 rate cap variation applications. You should not refer to or use our name or the advice for any other purpose.

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**LOCAL GOVERNMENT  
FINANCIAL  
SUSTAINABILITY**

FOCUS ON SMALL RURAL COUNCILS

**ABRIDGED REPORT**

MAY 2010

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## EXECUTIVE SUMMARY

This Report examines the relative financial sustainability of Victorian councils using a statistically based model. Sustainability is defined as a council's capacity to service the required needs of its community, preserve intergenerational equity and cope with contingencies without making radical changes to spending or revenue policies.

Several local government studies acknowledge the influence of environmental (demographic) factors on sustainability but assess it by using financial performance indicators. These indicators do not measure underlying sustainable capacity, but rather the financial results or use made of that capacity. Accordingly, this Report has approached the task by selecting those environmental factors that significantly influence council performance capability, quantifying the degree to which each factor impacts on operating revenues and costs, and applying the results to assess the relative sustainable capacity of each council.

Environmental factors selected for this purpose were net disposable community income (as the principal indicator of council capacity to raise own source revenue); recurrent, reliable government grants; population size; population sparsity, population dispersion (spread into townships and rural areas) and remoteness (distance from major centres). Each of these factors is externally imposed on councils and generally not subject to their control or influence.

Relative sustainability was determined by applying a "sustainability ratio" i.e. dividing the capacity to pay (as derived from net disposable community income) by own source revenue required (comprising nominal operating costs, less recurrent government grants. This ratio, when applied to each council, clearly establishes that environmental factors have a substantial detrimental impact on the sustainable capacity of smaller rural councils.

Three financial indicators were used to assess the financial performance of all councils for the seven year period ending 2011/12; underlying operating result, asset renewal (investment gap) and underlying net cash flow from operations. The results obtained strongly indicated that smaller rural councils were clearly the most financially vulnerable.

A strong relationship exists between the impact of environmental factors on the sustainable capacity of small rural councils and the combined underlying financial deficits incurred by them.

The Local Government Act 1989 requires councils to "*...work in partnership with the Governments of Victoria and Australia...*" to "*...achieve the best outcomes for the local community...*" and "*...improve the quality of life of the people of the municipal district...*". The State Government therefore has a responsibility to ensure that councils have adequate financial resources available to achieve these purposes.

The eighteen small rural councils identified in this Report do not have the capacity to adequately service their communities. The provision of guaranteed long term operating entitlements, as recommended by this Report, is essential to their future sustainability..

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## **PART 1 BACKGROUND AND METHOD**

### 1.1 COUNCIL RESPONSIBILITIES AND SUSTAINABILITY

According to a definition of sustainability accepted by State and Commonwealth Governments (Victorian Auditor General's Report 2006/07) and relevant provisions of the Local Government Act, a council should:-

- be capable of funding the service needs of its community, including "*the management and maintenance of assets*";
- be able to cope with contingencies that arise, without making radical changes to spending or revenue raising;
- ensure that spending practices are consistent with rating levels imposed on the community, and its relative capacity to pay them;
- effectively manage risks; and
- avoid financially disadvantaging future generations.

These criteria raise questions about the sustainable capacity of many councils.

### 1.2 MEASURING SUSTAINABLE CAPACITY AND PERFORMANCE OUTCOMES

Reports about council sustainability have generally recognised the influence of environmental factors (e.g. community income, population size) on performance, and have used financial indicators (e.g. operating result, debt level) to measure it.

Sustainable capacity and financial performance are different benchmarks, requiring different means of assessment.

Environmental factors have a very substantial impact on the ability of a council to service the needs of its community and are essential for measuring sustainable capacity.

Financial indicators on the other hand, are used to assess a council's financial results; past, present and forecast; i.e. for measuring performance outcomes.

One measures the capacity to be sustainable, the other analyses the use made of that capacity.

### 1.3 METHOD OF APPROACH

This report assesses the financial sustainability of all councils using a statistically based system ("Model") and approaches the task by:-

- ascertaining and applying environmental factors that materially impact on performance capacity;
- reliably quantifying the extent of that impact;
- identifying councils most disadvantaged, and the extent of that disadvantage;
- comparing results produced for sustainable capacity against those provided by financial performance measures; and
- determining appropriate remedial financial assistance for those councils with least sustainable capacity.

Councils have been classified into seven groups for comparative purposes only. Two councils, Melbourne and Queenscliffe are Unclassified. - **Refer Appendix 1**

## **PART 2. APPLICATION OF ENVIRONMENTAL FACTORS**

### 2.1 THE FACTORS

#### Revenue:

- capacity of the community to pay rates, charges, fees, fines and other revenue; and
- assistance provided by government in the form of tied and untied recurrent grants.

#### Costs:

- size of the population;
- population sparsity;
- dispersion of the population into townships and rural areas; and
- remoteness of the municipality from major populations centres.

Factors are external in origin and not subject to council control. Measurements are based on data for the 2005/06 financial year.

### 2.3 CAPACITY TO PAY

#### **a. Method of Assessment**

Two methods are consistently proposed for assessing capacity of the community to pay property valuations and net disposable community income (NDCI).

According to the Productivity Commission Report 2008 :

*"The higher the aggregate income of a community, the higher the ability to pay for local government services, and hence the higher the potential for its local government to raise revenue."* (Page 55); and

*"All things considered, the Commission considers that the appropriate indicator of fiscal capacity in the context of this study is the aggregate income of its local community. Ultimately, it is the incomes of individuals in local communities that constrain the choices they face between consuming public or private sector goods and services."* (Page 55)

This Model selected NDCI as the better indicator of capacity to pay. The ability to meet costs, whether they be for commodities or council services, is directly related to the income levels of individuals and the community collectively. The higher the income level, the greater the fiscal capacity.

#### **b. Income Sources**

NDCI comprises personal income and business income after deducting taxes. It includes:-

**Personal Income comprising:** Individual taxpayers salaries and wages, unincorporated business incomes, partnership/ trust distributions, interest, dividends, eligible termination and superannuation payments; and Commonwealth Pensions and Benefits (includes Aged, Disability Support, Family Allowances, Veterans Affairs). Pensions / benefits applicable to each council were derived by allocating total annual expenditure for each pension / benefit to each council by the ratio of council recipients to total recipients, using Centrelink and ABS data.

**Company Income:** After tax company income for all industries, together with the numbers of persons employed in each industry, are available at Commonwealth level (ATO). The numbers employed in each industry are also available at State level. The proportion of after tax company income for Victoria was derived by applying the ratio of Victorian employee numbers to Commonwealth employee numbers. This method was used by the Productivity Commission (2008 Report).

After tax company income for Victoria was allocated to each Council using commercial / industrial, and rural property valuations because there is a significantly greater correlation at local government level between company income and valuations of premises from which it is derived, than that which exists between company income and numbers employed.

### **c. Income Adjustments**

The capacity of a council to raise revenue is determined by the level of NDCI available. However adjustments to NDCI are required to more accurately reflect the real capacity of the community to pay rates and charges; fees, fines and other revenue.

These are:-

Recognising the contribution to NDCI by non-resident owners of unoccupied dwellings.

These owners contribute to the NDCI of a council by paying rates and charges and, from time to time, fees, fines and other revenue. To recognise this contribution, individual after tax incomes of these owners are included in NDCI at values equivalent to the average after tax incomes for that municipality.

Determining the value of NDCI available from each class of property for levying rates and charges; and fees, fines and other revenue.

NDCI components are allocated to each council property class as follows:-

- individual after tax income to each property class according to the number of assessments in each class;
- all company non primary production after tax income to the commercial / industrial class;
- all company primary production after tax income to the rural class; and
- all pensions / benefits to the residential class.

NDCI for each council is distributed in this way to recognise the impact of variations in income levels between property classes on capacity to pay.

### **d. Calculating Capacity To Pay**

**The NDCI applicable to rates and charges** is derived by:-

- multiplying the total NDCI for each property assessment type (residential, commercial / industrial and rural) by the ratio of actual rates and charges raised for each type to total rates and charges levied; and
- adding the results to obtain a weighted disposable income per assessment; then multiplying the weighted NDCI per assessment by the ratio of actual rates and charges revenue to total own source revenue.

NDCI for rates and charges is expressed in terms of “dollars per assessment” rather than per head to reflect the fact that this form of income is derived on a property basis.

**Councils receive fees, fines and other revenue** from residents, commuting workers, shoppers, tourists and facility users, property rentals, investments, interest, etc. It is difficult to link these income sources to any particular user group. The statistical method used for assessing the capacity to pay these revenues is based on the partial inclusion of all four components of NDCI; i.e. individuals, pensions / benefits, company non-primary production and primary production. Statistical modelling (regression analysis) facilitates an accurate measure of the weighted effect of these components on fees, fines and other revenues.

The result is calculated and applied in “*dollar per head*” terms, to reflect the fact that a high proportion of these revenues is received / charged on that basis.

**e. Capacity To Pay Index**

Capacity of a community to pay (councils revenue raising capacity) is then obtained by aggregating:-

- rates and charges per assessment; and
  - fees, fines and other revenue per head
- to create a Capacity to Pay Index.

Impact of the capacity to pay index on each council classification is shown in the table:

COUNCIL CLASSIFICATION	NUMBER OF COUNCILS	CAPACITY TO PAY INDEX MEDIANS	TIMES BASE LEVEL
Inner Metropolitan	16	78,485	2.7
Outer Metropolitan	14	68,059	2.3
Regional Centres	7	68,359	2.3
Large Rural	7	52,844	1.8
Medium Rural	9	45,466	1.6
Small Rural	15	44,435	1.5
Very Small Rural	9	29,140	1.0 (Base Level)

The smaller rural councils have the lowest relative capacity to raise own source revenue. Further analysis shows that these councils have also made the greatest relative use of that capacity to raise both rates and charges; and fees, fines and other revenue.

Capacity to pay has a substantial impact on financial sustainability. It provides the basis from which councils derive own source revenue that, in turn, comprises about 83% of recurrent operating revenue. The differences in fiscal capacity between council classifications are illustrated in graph form – **Refer Appendix 3.**

## 2.3 RECURRENT GOVERNMENT GRANTS

Recurrent grant assistance comprises untied General Purpose and Local Road grants from the VGC and tied government grants for services such as health, welfare and recreation. These grants constitute about 17% of local government recurrent revenues and are included for assessing financial sustainability because they provide a substantial, reliable and consistent source of municipal revenue.

The typical recurrent grant level per head for a small rural municipality is \$680 while that for a metropolitan municipality is about \$120. This income has a much greater impact on the viability of smaller municipalities, the amount received by many of them exceeding 50% of their own source revenue.

The Grants Commission is required to allocate general purpose grants in accordance with principles contained in Commonwealth legislation, including a provision that 30% of the grant be distributed on a per capita basis. According to the Pricewaterhouse Coopers Report, National Financial Sustainability Study, 2006 (Page138) some councils ...*"receive more than might be justified by their horizontal equalization assessment.."*, thereby *"...drawing funding away from relatively disadvantaged councils.."*. This Model acknowledges that the Grants Commission is constrained by these provisions. However, conditions placed by the Commonwealth on the distribution of these funds precludes larger allocations being made to those councils identified in this Report as being in greatest need.

## 2.4 SELECTION OF COST FACTORS

To determine relative sustainability between councils this Model has focused on quantifying and applying four environmental factors that collectively exert a very substantial impact on service costs; these being population size, sparsity, dispersion and remoteness. This approach involved the development of a regression based statistical model to determine the financial impact of each environmental factor on the actual operating expenses incurred by each council. This was done to establish a representative (nominal) operating cost for each factor for each council. The process facilitates a reliable comparison of sustainable capacity between councils operating in different environments. The methodology has been reviewed and verified by independent expertise.

These four factors in combination explain a very high percentage of the variation in operating costs. The remaining percentage of that variation is accounted for by other less significant environmental factors; and by subjective differences, in particular corporate / managerial policies and practices.

Costs relating to the corporate / management approach are influenced by the range of services offered, standards applied, method of delivery, overall effectiveness and efficiency of operation and attitude to rate increases. Some smaller councils have curtailed services to reduce underlying operating deficits while others have attempted to maintain service levels, thereby increasing them. This explains, in part, differences in performance results achieved by councils with similar environmental characteristics.

## 2.5 POPULATION NUMBER

Large populations support the achievement of economies of scale, resulting in reduced service costs. The relationship between population number and service costs per head for all councils (using regression analysis) is summarized in the following table:

COUNCIL CLASSIFICATION	MEDIAN COST PER HEAD	%AGE INCREASE
Outer Metropolitan	\$ 776	0% (Base)
Inner metropolitan	\$ 796	2.5%
Regional Centres	\$ 861	9.5%
Large Rural	\$ 962	24.0%
Medium Rural	\$1042	34.3%
Small Rural	\$1188	53.1%
Very Small Rural	\$1390	79.1%

The differences in population / cost per head between council classifications, is illustrated in graph form – **Refer Appendix 4.**

There is a clear relationship between cost per head and size of population. The increase in operating cost per head from large to small municipalities is exponential and accelerates as population falls below 50,000, and becomes far more pronounced below 15,000. This relationship is illustrated in graph form – **Refer Appendix 5.** About 56% of costs is attributable to population size.

## 2.6 POPULATION SPARSITY

Sparsity has been calculated using population per kilometre of road rather than the population / area ratio because some municipalities contain large uninhabited un-serviced areas, thereby distorting the sparsity / area calculation. Provision of services over larger distances increases service costs. The impact of sparsity on service costs per head ranges from less than \$10 per head in metropolitan councils to over \$200 per head for remote rural areas. Rural councils, mainly those classified as very small rural, are most adversely affected. The contribution of sparsity to costs is about 17%.

## 2.7 POPULATION DISPERSION

Dispersion refers to the spread of population into more than one urban centre, thereby potentially increasing the cost of service provision. The VGC “*index*” for assessing the cost impact of dispersion has been adapted for use in this Model. The index score takes account of the services delivered from the administrative centre of a municipality to each urban centre and its surrounding rural areas. It includes the distances over which they are delivered and the percentage of the population being serviced in each locality. The location of population within municipalities varies markedly with a resultant impact on service costs. In almost all metropolitan municipalities, the population is closely and uniformly distributed – the service centre and population to be serviced being one and the same. In many rural municipalities population is spread between several urban communities and their surrounding rural districts, varying in size and distance from the service centre.



Dispersion costs per head range from nil to more than \$200. Very few metropolitan councils are affected. Most rural councils ranging from large to very small are generally more disadvantaged, with costs per head in some cases exceeding \$150. The contribution of dispersion to costs is about 15%.

## 2.8 COUNCIL REMOTENESS

The impact of remoteness is measured using an index entitled the State Accessibility Remoteness Index of Australia plus (S.A.R.I.A.) 2006, developed by the National Key Centre for Social Applications of Geographical Information Systems. It is based on road distance from the municipality to major population centres and represents additional costs incurred in accessing goods and services such as health and education. The index has been refined and used in this Model to calculate a service cost per head for remoteness.

While metropolitan councils score nil for remoteness, those councils assessed as being most remote incur an additional operating cost exceeding \$120 per head. Rural councils are most negatively affected, in particular those in the very small rural category. The contribution of remoteness to costs is about 12%.

## 2.9 TOTAL NOMINAL COSTS BY COUNCIL CLASSIFICATION

The combined impact of population number, density, dispersion and remoteness is provided below.

COUNCIL CLASSIFICATION	MEDIAN	%AGE INCREASE
Inner Metropolitan	\$ 810	0% (Base)
Outer Metropolitan	\$ 811	0%
Regional Centres	\$ 907	12%
Large Rural	\$1183	46%
Medium Rural	\$1280	58%
Small Rural	\$1427	76%
Very Small Rural	\$1822	249%

Small and, in particular, very small rural councils, are the most disadvantaged by these factors. The results presented in the table are illustrated in graph form – **Refer Appendix 6**

The nominal operating costs used in this report to assess sustainability are derived from actual operating expenses. These costs are conservative because councils experiencing most financial difficulty are underfunding required services, thereby incurring lower costs. Consequently the sustainable position of smaller rural councils is likely to be more vulnerable than shown.

## 2.10 THE SUSTAINABILITY RATIO

The sustainability ratio is the relationship between capacity to pay (C2P) and own source revenue required. It is represented by the formula:

$$SR = \frac{C2P}{OSRR} \text{ where:}$$

C2P = the capacity to pay index comprising aggregate net disposable community incomes; and

OSRR = nominal operating cost representing the combined impact of population number, sparsity, dispersion and remoteness; less recurrent government grants.

In effect, this ratio represents a council's relative capacity to raise revenue divided by its relative ability to meet net costs – **Refer Appendix 2.**

Using these ratios (derived from environmental factors) the sustainability of each council has been rated on a comparative scale of 10 to 1; very positive to very negative. For an example of the application of the rating system, **Refer Appendix 7, "Council Sustainability Summary Report"**

A summary of the **sustainability ratings based on environmental factors** for all councils by classification is provided in the table below:

COUNCIL CLASSIFICATION	NUMBER OF COUNCILS	VERY POSITIVE	POSITIVE	MODERATE	NEGATIVE	VERY NEGATIVE
Inner Metropolitan	16	10	6	-	-	-
Outer Metropolitan	14	5	7	2	-	-
Regional Centres	7	2	4	1	-	-
Large Rural	7	-	-	2	5	-
Medium Rural	9	-	-	2	7	-
Small Rural	15	-	-	1	5	9
Very Small Rural	9	-	-	-	-	9
<b>TOTALS :</b>	<b>77</b>	<b>17</b>	<b>17</b>	<b>8</b>	<b>17</b>	<b>18</b>

Ratios based on council classifications are presented in graph form – **Refer Appendix 8.** This clearly shows that the combined impact of environmental factors – population size, sparsity, dispersion, remoteness, NDCI and recurrent government grants has a much greater detrimental effect on the sustainability of smaller councils. Twenty-three of the twenty-four small and very small rural councils have negative and very negative sustainability ratings. It is again emphasized that these ratings are based on the impact of inherent factors over which councils exercise virtually no control and which do not reflect differences in managerial performance and corporate direction

### **PART 3. APPLICATION OF FINANCIAL PERFORMANCE MEASURES**

#### **3.1 THE MEASURES**

Financial performance must be measured over time to ascertain the extent to which each council is achieving or maintaining a sustainable position. The indicators used are:

- underlying operating result;
- infrastructure renewal and maintenance performance (investment gap);
- adjusted underlying operating result;
- underlying operating cash resources (self financing); and
- debt and liquidity.

The first three measures are regarded as vitally important to determining longer-term sustainable capacity. The remaining measures are provided for support.

These measures were used to evaluate the financial performance of councils over the seven year period from 2005/06 to 2011/12; and are based primarily on the data provided by all councils in the four standard financial statements; i.e. financial performance, financial position, cash flows and capital works.

#### **3.2 UNDERLYING OPERATING RESULT**

The underlying operating result is a measure of the capacity of a municipality to finance recurrent services, pay debt interest and meet the cost of asset use (depreciation). Continuing deficits indicate that the asset base is being eroded and that insufficient resources are being allocated to meeting current service demands. The consequence is a "run down" of service levels by deferring today's costs, thereby creating a financial disadvantage for future generations.

Several highly credentialed bodies involved in local government financial performance assessment use the underlying operating result as the primary indicator. The Institute of Chartered Accountants in Australia, (ICA) in its "Victoria City Council Model Budget 2008/09" advocates "... a greater focus on the underlying operating result as a measure of sustainability". The Queensland Treasury Corporation in its report entitled "Financial Sustainability in Queensland Local Government" describes its importance by stating that "... operating performance (operating position) is a key indicator used in the private and public sector". The Local Government Association of South Australia in its "Financial Indicators Information Papers" No's. 9 and 12 March 2007 :describes it as "... by far the most important financial indicator for councils."

There is a difference between the approach taken by the Auditor General, and that recommended by the ICA and used in this Model. This distinction is explained by the ICA as follows: "This( ICA) definition differs from the underlying surplus as determined by the Victorian Auditor General in his report "Local Government Results of the 2006/07 Audits" issued in February 2008 which includes capital contributions in the calculation. In this Guide, capital contributions are excluded from the definition on the basis that the revenue is not tied, is received for capital expenditure and is fluctuating in nature meaning that the operating result can move from underlying deficit to surplus from year to year depending on the level of contributions received.

This Model calculates the underlying operating result by deducting from the operating surplus / deficit shown in the Standard Income Statement: non-recurrent grants, non-recurrent cash contributions (e.g. developer contributions) contributed non-cash assets; asset revaluations and other “once off” adjustments.

The underlying operating result is measured against own source revenue to provide an indicator of relevant performance between municipalities. Own source revenue is used for this purpose because a municipality has the capacity to address its underlying operating deficit by raising revenue from those sources over which it generally has control.

The underlying operating results for the seven year period 2005/06 to 2011/12 are presented according to council categories in the table below:-

COUNCIL CLASSIFICATION	NO. OF COUNCILS	OPERATING RESULTS				
		CF OWN SOURCE REVENUE			NO. IN NEGATIVE	
		MAXIMUM	MINIMUM	AVERAGE	LOW	VERY LOW
Inner Metropolitan	16	9.0%	- 4.5%	1.3%	-	-
Outer Metropolitan	14	11.5%	-10.7%	1.9%	1	-
Regional Centres	7	6.2%	-4.3%	0.2%	-	-
Large Rural	7	5.9%	-7.0%	- 0.5%	1	-
Medium Rural	9	6.5%	- 15.6%	-4.3%	3	1
Small Rural	15	0.4%	-19.2%	-8.6%	9	3
Very Small Rural	9	-5.1%	-22.3%	-12.7%	4	4
<b>TOTAL</b>	<b>77</b>				<b>18</b>	<b>8</b>

Low = -6% to - 12%

Very low = - 12% or greater

The average underlying operating results for small and very small rural councils are very unfavourable compared to those of all other council groups. Twenty of the twenty four smaller rural councils have operating results that very adversely impact on sustainability while only six of all other councils are similarly affected. The small councils are highly reliant on “once off” grants and non guaranteed capital grants to support their financial positions. This measure shows that, in terms of underlying operating performance, these councils are at most risk.

### 3.3 ASSET RENEWAL AND MAINTENANCE

Asset renewal and maintenance budgeted compared to asset renewal and maintenance required, is an appropriate measure and has been used in this Model. A summary of results obtained by applying this measure is shown in the following table:

COUNCIL CATEGORY	NUMBER OF COUNCILS	RATING				
		VERY STRONG ABOVE 95%	STRONG 90% - 95%	MODERATE 85% - 90%	WEAK 80% - 85%	VERY WEAK BELOW 80%
Inner Metropolitan	16	7	3	5	-	1
Outer Metropolitan	14	8	1	1	1	3
Regional Centres	7	4	-	2	-	1
Large Rural	7	3	1	-	-	3
Medium Rural	9	5	1	-	1	2
Small Rural	15	5	1	1	3	5
Very Small Rural	9	1	1	3	2	2
<b>TOTAL</b>	<b>77</b>	<b>33</b>	<b>8</b>	<b>12</b>	<b>7</b>	<b>17</b>

While this table shows that weak asset renewal and maintenance performance is not restricted to the small rural councils, this Report shows they have the least capacity to address it.

### 3.4 ADJUSTED UNDERLYING OPERATING RESULT

This is derived by combining the forecast annual shortfall in funding of asset renewal and maintenance (inclusive of Roads To Recovery grants) with the underlying operating result, the outcome being expressed as a percentage of own source revenue. This adjusted result focuses attention on the real underlying financial position facing many small rural councils. A summary of **financial performance ratings based on the adjusted underlying operating result** by council classification is provided in the following table:

COUNCIL CLASSIFICATION	NUMBER OF COUNCILS	VERY STRONG	STRONG	MODERATE	VULNER	VERY VULNER
Inner Metropolitan	16	4	4	6	2	-
Outer Metropolitan	14	4	4	2	4	-
Regional Centres	7	1	-	5	1	-
Large Rural	7	1	1	2	2	1
Medium Rural	9	1	1	3	2	2
Small Rural	15	1	-	2	3	9
Very Small Rural	9	-	-	-	3	6
<b>TOTAL</b>	<b>77</b>	<b>12</b>	<b>10</b>	<b>20</b>	<b>17</b>	<b>18</b>

*Vulnerable = - 6% to -12%*

*Very Vulnerable = -12% or Greater*

Fifteen of the councils in the small and very small council groups are incurring adjusted underlying operating deficits, (i.e. inclusive of asset renewal and maintenance shortfalls) equal to 12% or more of annual recurrent revenue. This means there is loss in equity equal to recurrent revenue every eight years.

### 3.5 UNDERLYING NET CASH FLOW FROM OPERATIONS

Underlying net cash flow is cash generated from recurrent operations exclusive of any capital (non recurrent) contributions. This resource is available to finance the normal operating activities of the municipality; to repay loan principal and to invest in required asset renewal.

Relative net cash flow is calculated by expressing underlying cash flow as a percentage of own source revenue. The underlying operating cash flows for the seven year period ending 2011/12 are presented according to council categories in the table below:

COUNCIL CLASSIFICATION	NUMBER OF COUNCILS	UNDERLYING OPERATING CASH FLOWS				
		MAXIMUM	MINIMUM	AVGE	NUMBER NEGATIVE	
					LOW	V LOW
Inner Metropolitan	16	9.5%	-6.5%	-0.3%	1	-
Outer Metropolitan	14	8.5%	-16.2%	-1.0%	1	1
Regional Centres	7	0.6%	-11.3%	-4.8%	2	-
Large Rural	7	6.8%	-9.5%	-3.3%	3	-
Medium Rural	9	5.8%	-21.4%	-9.4%	3	3
Small Rural	15	-0.9%	-22.6%	-11.9%	8	5
Very Small Rural	9	-7.9%	-23.7%	-15.1%	3	6
<b>TOTAL</b>	<b>77</b>				<b>21</b>	<b>15</b>

*Low = -6% to -12%*

*Very low = - 12% or greater*

The average underlying net cash flow results for medium / small and very small councils are very unfavourable compared to those of all other groups. The results achieved for underlying operating cash flows are comparable to those produced for adjusted underlying operating results.

Questions have arisen about the accuracy of reported depreciation costs and their impact on the reliability of operating results. This area of reporting has improved as a consequence of attention given to it by councils in recent years. However, underlying net cash flow used in this Model provides a very useful alternative measure. In affect, it replaces "depreciation" with "cash required for asset renewal" as a means of determining a council's self financing capacity.

### 3.6 DEBT AND LIQUIDITY

Debt and liquidity are important measures for determining a council's financial position, but secondary for assessing sustainability. They are symptoms of underlying sustainability problems, rather than the cause of them.

### 3.7 SUMMARY OF FINANCIAL MEASURE RESULTS

The combined application of financial performance measures; in particular underlying operating results, underlying operational cash flows and asset renewal and maintenance, clearly demonstrates that the smaller rural councils are less financially sustainable. While there is a strong relationship between environmental capacity and financial performance, variations do occur, the reasons for which are given in Part 2.4 of this Report.

**PART 4 COMPARISON- ENVIRONMENTAL FACTORS/ FINANCIAL MEASURES**

Comparison of the outcomes produced by environmental factors with those provided by financial measures are made using the data contained in the tables below.

**SUSTAINABILITY RATINGS - BASED ON ENVIRONMENTAL FACTORS**

COUNCIL CLASSIFICATION	NUMBER OF COUNCILS	VERY POSITIVE	POSITIVE	MODERATE	NEGATIVE	VERY NEGATIVE
Inner Metropolitan	16	10	6	-	-	-
Outer Metropolitan	14	5	7	2	-	-
Regional Centres	7	2	4	1	-	-
Large Rural	7	-	-	2	5	-
Medium Rural	9	-	-	2	7	-
Small Rural	15	-	-	1	5	9
Very Small Rural	9	-	-	-	-	9
<b>TOTALS :</b>	<b>77</b>	<b>17</b>	<b>17</b>	<b>8</b>	<b>17</b>	<b>18</b>

**FINANCIAL PERFORMANCE RATINGS - ADJUSTED UNDERLYING OPERATING RESULTS**

COUNCIL CLASSIFICATION	NUMBER OF COUNCILS	VERY STRONG	STRONG	MODERATE	VULNER	VERY VULNER
Inner Metropolitan	16	4	4	6	2	-
Outer Metropolitan	14	4	4	2	4	-
Regional Centres	7	1	-	5	1	-
Large Rural	7	1	1	2	2	1
Medium Rural	9	1	1	3	2	2
Small Rural	15	1	-	2	3	9
Very Small Rural	9	-	-	-	3	6
<b>TOTAL</b>	<b>77</b>	<b>12</b>	<b>10</b>	<b>20</b>	<b>17</b>	<b>18</b>

The data presented in these tables clearly show that there is a close correlation between council classifications, environmental factor impacts and financial performance results.

Twenty three of the twenty four small and very small rural councils are very adversely affected by environmental factors and twenty one of these (88%) are rated as financially vulnerable / very vulnerable.

This clearly demonstrates that the collective impact of environmental factors has a very negative affect on the financial sustainability of the small / very small rural councils, a situation over which they have virtually no control.

## **PART 5. SUGGESTED ACTION**

### **5.1 SUMMING UP**

Part 1 of this Report documents the criteria for assessing the sustainability of councils, these being to provide the required range and standard of services, levy rates at equitable levels based on community capacity to pay; and to preserve intergenerational equity. The eighteen councils identified by this Model are experiencing considerable difficulty in achieving these requirements. The combined annual underlying operating deficits incurred by these councils (2006/07) totals \$34 million. This does not include the additional costs attributable to unfunded works and services.

The PWC Report 2006 (Page 116) states that: *".. the most significant viability drivers appear to be management quality and financial discipline"*. While some councils, irrespective of size, may manage better than others, this comment does not acknowledge the main issue for small rural councils. No amount of managerial expertise will overcome the substantial negative impact on operating capacity imposed by environmental factors over which they have little or no control.

All councils are faced with a variety of impositions on operating capacity, including cost shifting and increasing demands for services. According to the PWC Report 2006 (Page 86) *"...many councils have been proactive in the use of initiatives to minimize costs and boost efficiency.."* Small rural councils have, by necessity over time, pursued these efficiencies and have the least capacity to achieve further gains.

In allocating general purpose grants to councils, the Grants Commission must comply with a principle contained in Commonwealth legislation that requires 30% of available funds to be distributed based on population. Therefore, a substantial portion of these funds cannot be directed to the most disadvantaged councils. This means the needs of small rural councils identified by this Model must be met from an alternative funding source.

The provision of "one off" specific purpose grants to small rural councils does not address their underlying sustainability problem. This form of assistance will not prevent the continuing decline in operating capacity and the consequent reduction in the range and level of required services experienced by these councils.

Councils were created with *"functions"* and *"powers"* to provide *"good government of each municipal district."* *"..It is the role of Councils in exercising those functions and powers.."* to *"..work in partnership with the Governments of Victoria and Australia";* (Section 1) in order to *"..achieve the best outcomes for the local community";* (Section 3C (1) ); and to *"...improve the overall quality of life of the people in the municipal district"* (Section 3E (b) ).

The State Government has a responsibility to ensure that councils have adequate financial resources to achieve these purposes. Sustainability of these councils is dependant on the provision of guaranteed long term funding assistance.



## 5.2 OPERATING ENTITLEMENTS

A permanent, adequate, annual operating entitlement will facilitate the provision of services and facilities to a standard required and needed by the communities of these councils.

Entitlements are recommended for the eighteen least sustainable councils identified as having a sustainability rating of either 1 or 2. Entitlements for each council have been calculated in accordance with their sustainability ratios. The ratio of each council is thereby increased to the equivalent of the lowest ratio in level 3.

The total annual underlying operating deficits of \$34m incurred by these eighteen councils provides a guide for determining their combined total operating entitlements.

Each council is requesting the provision of an annual financial operating entitlement, as detailed in the table below, to facilitate the provision of necessary services and the enhancement of sustainable capacity. .

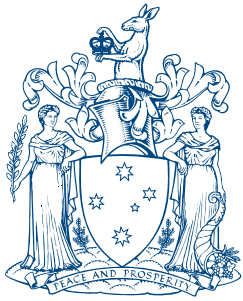
### ANNUAL OPERATING ENTITLEMENTS REQUIRED

COUNCIL	25% OSR	
	ANNUAL \$M	PER HEAD \$
Alpine	1.391	107
Ararat	1.260	108
Buloke	1.984	282
Central Goldfields	1.745	137
Gannawarra	1.723	148
Golden Plains	1.157	67
Hepburn	0.446	31
Hindmarsh	1.982	320
Indigo	0.715	46
Loddon	1.731	214
Mansfield	1.269	163
Murrindindi	1.195	84
Northern Grampians	1.417	115
Pyrenees	1.785	264
Strathbogie	2.122	218
Towong	2.036	326
West Wimmera	1.140	249
Yarriambiack	2.192	286
<b>TOTAL ENTITLEMENT</b>	<b>\$27.292</b>	

The total entitlement proposed of \$27.29m is equal to 6.9% of the total Grants Commission allocation for 2006/07 of \$396m; and to approximately 80% of the total underlying annual operating deficits of \$34m incurred by participating councils.

## 5.3 ONGOING APPLICATION OF SUSTAINABILITY RATIO

The variables used in the Model (e.g. NDCI, population levels) will change over time. These changes will result in variations to entitlements. The Model thereby accommodates changing circumstances by updating environmental factors annually. However, it would be preferable to calculate entitlements on a three or four year "rolling" basis to minimize the impact of any substantial annual variations.



# Organisational Sustainability of Small Councils





VICTORIA

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Victorian  
Auditor-General

# Organisational Sustainability of Small Councils

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Ordered to be printed

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The Hon. Bruce Atkinson MLC  
President  
Legislative Council  
Parliament House  
Melbourne

The Hon. Ken Smith MP  
Speaker  
Legislative Assembly  
Parliament House  
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on the audit *Organisational Sustainability of Small Councils*.

Yours faithfully



Dr Peter Frost  
*Acting Auditor-General*

12 June 2013



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# Audit summary

There are 79 local governments in Victoria. Of these, 21 are classified as small councils with populations of less than 20 000 people. These councils are located in rural areas and administer 89 893 square kilometres, or 40 per cent of Victoria's total area, and serve 217 000 people—4 per cent of the population.

Small councils are heavily dependent on government grants to continue operating. In 2011–12, small councils generated operating revenue of \$701 million, with government grants accounting for \$360 million, or 51 per cent, and rates and charges contributing \$216 million or 31 per cent. In contrast, government grants account for around 22 per cent and rates around 49 per cent of total revenue across all 79 councils.

Organisational sustainability means that councils have the capacity to function efficiently, effectively and economically to meet the current and future needs of their communities to an acceptable standard. Small councils should have a sound understanding of the issues and challenges impacting their sustainability and develop appropriate strategies to mitigate their impact as much as possible. Council operations should be underpinned by effective financial planning and asset management, and effective and efficient service delivery.

The audit assessed whether councils had:

- a sound understanding of the sustainability challenges and issues
- developed appropriate strategies that consider a range of options for addressing sustainability issues and challenges
- evaluated how effective sustainability strategies have been
- been provided with appropriate guidance and support by Local Government Victoria (LGV).

## Conclusions

Over the past five years, the reliance of audited councils on government grants has grown substantially. While rates and charges have increased in real terms, this has not been enough to keep pace with councils' increases in costs. Several audited councils are projected to have deteriorating positions against key financial indicators, which places them at a higher risk of short-term and immediate sustainability concerns.

The audited councils generally have a sound understanding of the sustainability challenges they face and have implemented a range of strategies to address these. However, the councils generally cannot demonstrate the effectiveness of strategies and actions and whether these are having a material impact on improving their sustainability.

While four of the audited councils have recently developed long-term financial plans, and all have made some efforts to improve asset management, further work is required in these areas. Councils' existing asset management plans contain out-of-date information, which provides limited assurance that asset management requirements are being appropriately considered. Councils have not undertaken comprehensive service reviews and cannot demonstrate that they are delivering services effectively and efficiently, or that they have exhausted all opportunities to introduce or increase user fees and charges. While improving long-term financial planning, asset management and service delivery may not provide assurance that a council will be sustainable, these actions are still necessary in order to remain viable in the medium to long term.

Common sustainability issues and challenges across the audited councils include:

- having effective financial planning and asset management
- effectively and efficiently delivering services
- recruiting and retaining qualified and skilled staff
- dealing with the impact of population ageing and/or population change—such as high growth or decline
- dealing with the defined benefits superannuation shortfall.

LGV provides a range of general guidance and support, which is applicable to small councils in addressing some sustainability concerns, and it has implemented actions to assist small councils at high-risk of sustainability issues. However, LGV could more proactively target small councils with appropriate support and advice before their situation becomes critical. LGV is developing a performance reporting framework to provide a common suite of sustainability indicators for councils. This may provide an opportunity for LGV to more closely monitor councils' sustainability and respond appropriately to support them on a timely basis.

## Findings

### Financial trends

Over the past five years, the reliance of audited councils on government grants has more than doubled from \$33.766 million in 2007–08 to \$72.434 million in 2011–12. This equates to an average increase of 25 per cent per year for the audited councils. The increase in grants as a proportion of total revenue averaged 1.9 per cent a year. Over the same period, rates and charges, and user fees and charges increased from \$35.714 million to \$49.083 million and \$7.275 million to \$8.810 million respectively. While rates and charges have increased in real terms, they have decreased as a proportion of total revenue, with councils' reliance on these declining over the same period by 1.4 per cent per annum and 0.3 per cent respectively. Therefore, while councils have increased the amount of own-source revenue they generate through rates and user charges, it has not been enough to keep pace with their increase in costs. Given current Commonwealth and State Budget positions and the economic climate, the audited councils' increasing reliance on grants may be unsustainable.

Buloke and Yarriambiack are projected to have deteriorating positions against key financial indicators related to short-term and immediate sustainability concerns. Strathbogie has some worrying financial indicators, but others are projected to improve. Several longer-term financial sustainability indicators are projected to deteriorate for Golden Plains and one for Towong, although Towong is projected to improve against all other indicators.

### Effective financial planning and asset management

Effective long-term financial planning and asset management is crucial to sustainability and these should be appropriately integrated so that asset management needs are adequately considered in financial planning. All audited councils except Yarriambiack have recently developed long-term financial plans, but these vary in quality and are not sufficiently integrated with asset management. While the plans—particularly Strathbogie’s—reflect a number of better practice elements, further work is needed by all councils to address deficiencies and effectively plan their finances over the long term to support their sustainability.

### Effective and efficient service delivery

Councils deliver a wide range of services to their communities. Even within the context of necessary expenditures, there is scope to decide the services and service levels there should be. The *Local Government Act 1989* sets out the Best Value Principles that should inform council decisions on services. Other than narrow reviews of specific services—such as to identify cost savings—none of the audited councils have undertaken comprehensive reviews of services in accordance with these principles, or reviewed service levels to assess the effectiveness and efficiency of service delivery. The current approaches provide limited assurance that expenditure on service delivery is informed by an adequate understanding of community needs or the effectiveness and efficiency of council services. All councils have committed to maintaining existing service levels.

### Recruiting and retaining qualified and skilled staff

Small councils in regional and rural areas face challenges in attracting and retaining appropriately qualified and skilled staff. All audited councils except Yarriambiack identified this as an issue and some have implemented strategies to address these challenges.

Golden Plains has developed a workforce plan, which contains a number of better practice elements, including identifying future workforce needs and strategies to address workforce issues. While there have been no formal evaluations of the plan itself, council advised it has been effective in informing decisions about staff levels, identifying gaps, career planning for existing staff and potential replacement of key staff.

Strathbogie completed an organisational review in 2011, which included voluntary redundancies, the creation of several new positions and the development of a new organisation structure. While the review recommended that Strathbogie develop a workforce plan, council has not yet done so.

Councils also outsource some positions, including statutory roles, such as building surveyors and planning officers. While Yarriambiack advised that staff recruitment was not an issue, it too outsources these statutory positions. Councils advised that these roles can be difficult to fill and that this may be due to their remuneration being uncompetitive, potential applicants not wanting to relocate to regional areas or because councils only require part-time positions.

Outsourcing may address the issue in the short term and maintain ongoing service delivery. However, councils have not assessed whether this is more cost effective than employing staff directly, and sustainable in the long term.

### Population ageing and/or population changes

Population ageing and/or population changes—such as high growth or decline—can present challenges to small councils. Population changes affect councils' rating base and change service delivery needs. With the exception of Towong, there are consistent trends facing the audited councils across the 30-year period—2001 to 2031—of either increasing (Golden Plains and Strathbogie) or decreasing populations (Buloke and Yarriambiack). All audited councils except Yarriambiack have developed, or are developing, strategies related to population change. However, these are relatively new or in development.

### Defined benefits superannuation shortfall

A sharp increase in employee benefit expenses in 2012 for all audited councils is due to the funding call on the Local Authorities Superannuation Fund Defined Benefits Plan. In 1998, state legislation governing the scheme was repealed and it became a 'regulated fund' under Commonwealth Government legislation, which introduced a requirement for it to be fully funded. Of the audited councils, Yarriambiack, Buloke and Towong's liability is the highest in real terms, and as a proportion of their rates revenue. Councils have adopted a range of different strategies to meet their liability. The impact of this shortfall highlights the vulnerability of small councils to unplanned events and their limited capacity to absorb this expenditure.

### Support and guidance

It is important that appropriate support and guidance is provided to small councils to assist in addressing specific sustainability issues and improving the efficiency and effectiveness of council operations. This includes driving the adoption of better practices, improving their capability and providing targeted support or intervention when required.

While LGV does not have strategic priorities targeting the organisational sustainability of small councils, it provides a range of guidance and support broadly related to sustainability that is applicable to them. This includes developing and disseminating better practice guides that cover areas such as asset management, procurement and Best Value service delivery, delivering programs, and developing a performance management framework. However, there are opportunities to make this guidance and support more directly targeted to areas of challenge for small councils and to build their capability and resilience.

LGV conducts monitoring and reporting activities to identify councils at high risk of sustainability issues. It has advised the Minister for Local Government about these councils and implemented actions to address issues when they have become critical. LGV could more proactively target small councils with appropriate support and advice before their situation becomes critical. The development of LGV's local government performance management framework provides an opportunity to more closely monitor councils' sustainability and respond appropriately to support them on a timely basis.

## Recommendations

Number	Recommendation	Page
1.	Councils should clearly identify and publicly report their sustainability challenges and associated strategies and actions, including how they will monitor, report and evaluate their effectiveness, using relevant and appropriate performance indicators.	30
2.	Yarriambiack Shire Council should develop a long-term financial plan and all councils should update their existing plans in accordance with better practice.	30
3.	Councils should review service planning and delivery in accordance with Best Value Principles as a priority, including: <ul style="list-style-type: none"> <li>assessing overall service delivery levels to determine appropriate levels and provide the rationale for their decision</li> <li>consulting with their communities on their ability and willingness to pay for desired services in the development of the council plan</li> <li>developing a plan to regularly review all services over time.</li> </ul> The Department of Planning and Community Development should:	30
4.	review and update its asset management guidance	36
5.	consider making the development of a long-term financial plan mandatory and provide support and guidance in the development of these	36
6.	routinely review the guidance and support it provides so that it is aligned with areas of highest need and addresses gaps in councils' capability and capacity	36
7.	expedite implementation of the planned local government performance reporting framework and make sure it includes appropriate sustainability indicators.	36

## Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to the Department of Planning and Community Development and to the following five councils, with a request for submissions or comments:

- Buloke Shire Council
- Golden Plains Shire Council
- Strathbogie Shire Council
- Towong Shire Council
- Yarriambiack Shire Council.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments are included in Appendix B.

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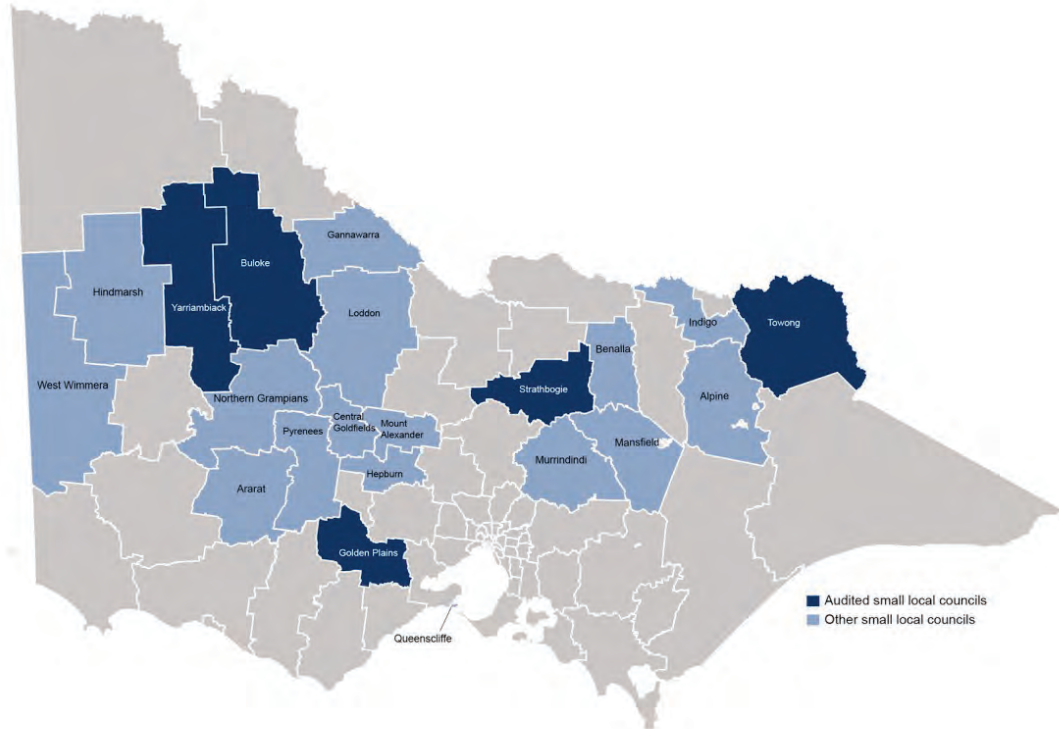
# 1 Background

## 1.1 Small councils

There are 79 local governments in Victoria. Of these, 21 are classified as small councils with populations of less than 20 000 people. These councils are located in rural areas and administer 89 893 square kilometres, or 40 per cent of Victoria's total area, and serve 217 000 people—4 per cent of the population.

Figure 1A shows the location of the 21 small councils in Victoria with the five audited councils highlighted.

**Figure 1A**  
Location of 21 small councils



Source: Victorian Auditor-General's Office.



### 1.1.2 Small council funding

Small councils are heavily dependent on government grants to continue operating. In 2011–12, small councils generated operating revenue of \$701 million, with government grants accounting for \$360 million, or 51 per cent, and rates and charges contributing \$216 million or 31 per cent. In contrast, government grants account for around 22 per cent and rates around 49 per cent of total revenue across all 79 councils.

### 1.1.3 Organisational sustainability of small councils

Organisational sustainability means that councils have the capacity to function efficiently, effectively and economically to meet the current and future needs of their communities to an acceptable standard. Core attributes of organisational sustainability include:

- sound governance to guide effective delivery of council activities
- effective planning to support current and future council operations
- sound financial management to meet current and future financial commitments
- optimum use of available resources
- use of community engagement to enable prioritisation of services and asset management according to community needs
- effective workforce planning and management.

Small councils face a range of issues and challenges that impact organisational sustainability, some of which may be outside of their control. These include:

- population decline and demographic changes such as ageing populations
- their location within regions including proximity to large regional towns
- recruiting and retaining qualified or skilled staff
- large networks of roads and other infrastructure to maintain
- increasing service delivery costs and servicing large geographic areas
- dealing with major unplanned events, such as the recent defined benefits superannuation shortfall, where the extent of liability was unknown.

## 1.2 Legislation and better practice

---

### *Local Government Act 1989*

The *Local Government Act 1989* (the Act) stipulates the primary objective of a council is to endeavour to achieve the best outcomes for the local community, having regard to the long term and cumulative effects of decisions. In seeking to achieve its primary legislative objective, a council must have regard to the following facilitating objectives:

- to promote the social, economic and environmental viability and sustainability of the municipal district
- to ensure that resources are used efficiently and effectively, and services are provided in accordance with the Best Value Principles to best meet the needs of the local community
- to improve the overall quality of life of people in the local community
- to promote appropriate business and employment opportunities

- to ensure that services and facilities provided by the council are accessible and equitable
- to ensure the equitable imposition of rates and charges
- to ensure transparency and accountability in council decision-making.

Under the Act, councils are required to develop planning and accountability reports, and apply sound financial management and Best Value Principles, as shown in Figure 1B.

**Figure 1B**  
**Local Government Act 1989 requirements**

<b>Planning and accountability reports</b>
<ul style="list-style-type: none"> <li>(a) <i>Council Plan</i> including the strategic objectives, strategies for at least the next four years and strategic indicators</li> <li>(b) <i>Strategic Resource Plan</i> setting out the required financial and non-financial resources for at least the next four years to achieve the strategic objectives</li> <li>(c) <i>Budget</i> containing a description of the activities and initiatives to be funded and how they will contribute to achieving the strategic objectives</li> <li>(d) <i>Annual Report</i> containing a report of its operations during the financial year, audited standard and financial statements for the financial year.</li> </ul>
<b>Sound financial management principles</b>
<p>A council must:</p> <ul style="list-style-type: none"> <li>(a) manage financial risks faced by the council</li> <li>(b) pursue spending and rating policies consistent with a reasonable degree of stability in the level of the rates burden</li> <li>(c) ensure that decisions are made and actions are taken having regard to their financial effects on future generations</li> <li>(d) ensure full, accurate and timely disclosure of financial information.</li> </ul>
<b>Best Value Principles</b>
<ul style="list-style-type: none"> <li>(a) All services must meet the quality and cost standards</li> <li>(b) All services must be responsive to the needs of its community</li> <li>(c) Each service must be accessible to those whom the service is intended for</li> <li>(d) A council must achieve continuous improvement in the provision of services for its community</li> <li>(e) A council must develop a program of regular consultation with its community</li> <li>(f) A council must report regularly to its community on its achievement in relation to the principles set out above.</li> </ul>

*Source:* Victorian Auditor General's Office based on information from the *Local Government Act 1989*.

### Better practice and sector guidance

Better practice guidance material and other support is available to councils from a range of sources. This includes material developed by Local Government Victoria (LGV), the Municipal Association of Victoria (MAV), Victorian Local Government Association (VLGA), Local Government Professionals (LGPro) and organisations such as the Institute of Public Works Engineering Australia (IPWEA) and the Australian Centre of Excellence for Local Government (ACELG). Key better practice guidance material is set out in Figure 1C.

**Figure 1C**  
**Better practice guidance material**

Title	Description	Published by
<i>Local Government Planning and Reporting Better Practice Guide (2013)</i>	A guide to assist councils to meet statutory planning and accountability requirements, including guidance in the development of the council plan and reporting performance	LGV
<i>Long-term Financial Planning (2012)</i>	Developed to assist organisations that are involved in service delivery and long-term asset management in preparing a long-term financial plan	IPWEA and ACELG
<i>Asset Management Policy, Strategy and Plan (2004)</i>	Guidelines for developing an asset management policy, strategy and plan	LGV
'STEP' asset management improvement program (since 2003)	A program for councils covering asset management and planning as essential for effective delivery of services	MAV
<i>Victorian Local Government Best Practice Procurement Guidelines 2013</i>	Guidelines for dealing with the procurement cycle (planning, implementation, management and performance evaluation), reporting on procurement and meeting obligations under the Act	LGV
<i>Embedding Community Priorities into Council Planning (2008)</i>	A set of guidelines for involving the community in development of the council plan	LGPro
<i>A guide to achieving a whole of organisation approach to Best Value (2006)</i>	Designed to assist in developing or enhancing formal or informal improvement and planning frameworks to effectively incorporate the Best Value Principles	LGV developed in partnership with LGPro Corporate Planner's Network and the Best Value Commission

Source: Victorian Auditor-General's Office.

## 1.3 Roles and responsibilities

### 1.3.1 Local Government Victoria

LGV, a division of the Department of Planning and Community Development (DPCD), supports and advises the Minister for Local Government in administering the Act. The role of LGV also includes overseeing, supporting and encouraging local government and providing advice and support to councils in relation to their roles and responsibilities under the Act. LGV also works in partnership with the local government sector and other parts of government to improve and reform business, governance and funding practices to maximise value and accountability.

### 1.3.2 Local councils

Councils deliver a wide range of services to their communities including child and family day care services, meals on wheels, waste collection, planning and recreational services. Councils also build and maintain community assets and infrastructure, including roads, footpaths and drains, and enforce various laws. Councils are required by the Act to promote the sustainability of the municipal district and to ensure effective and efficient use of resources. Councils are also expected to provide services in accordance with Best Value Principles to best meet the needs of the local community.

### 1.3.3 Victoria Grants Commission

The Victoria Grants Commission's primary function is to allocate revenue provided by the Commonwealth Government to municipal councils in Victoria according to the *Local Government (Financial Assistance) Act 1995* and a set of national distribution principles. All funds allocated by the Commonwealth are distributed to councils. The commission is funded by the Victorian Government through DPCD.

## 1.4 Previous audits

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### 1.4.1 *Local Government: Results of the 2011–12 audits*

VAGO's *Local Government: Results of 2011–12 audits* report presents the results of our financial audits of 103 entities within the local government sector, including Victoria's 79 councils. It provides a detailed analysis of council financial reporting, performance reporting, financial results, financial sustainability and internal controls. It analyses trends in six key financial sustainability indicators (underlying result, liquidity, self-financing, indebtedness, capital replacement and renewal gap), reflecting both short- and long-term sustainability, over a five-year period and includes forecasts over a three-year period.

### 1.4.2 Related performance audits

Other reports relating to organisational sustainability that VAGO has tabled over the past few years include:

- *Ratings Practices in Local Government* (February 2013)
- *Business Planning for Major Capital Works and Recurrent Services in Local Government* (September 2011)
- *Fees and Charges—cost recovery by local government* (April 2010).

## 1.5 Audit objective and scope

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The objective of this audit was to assess the effectiveness of the planning and management undertaken by small councils to support their long-term organisational sustainability. It also assessed guidance and support provided by LGV and aimed to identify practices that could help drive improvements across the local government sector.

The audit focused on the following five selected councils:

- Buloke Shire Council
- Golden Plains Shire Council
- Strathbogie Shire Council
- Towong Shire Council
- Yarriambiack Shire Council.

It assessed whether they have:

- a sound understanding of the sustainability challenges and issues facing their council
- developed appropriate strategies that consider a range of options for addressing sustainability issues and challenges
- evaluated how effective sustainability strategies have been
- been provided with appropriate guidance and support to address sustainability issues by LGV.

## 1.6 Method and cost

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The audit was conducted in accordance with section 15 of the *Audit Act 1994* and Australian Auditing and Assurance Standards. Pursuant to section 20(3) of the *Audit Act 1994*, any persons named in this report are not the subject of adverse comment or opinion.

The cost of the audit was \$385 000.

## 1.7 Structure of the report

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The report is structured as follows:

- Part 2 examines the financial position of councils
  - Part 3 discusses sustainability issues, challenges and strategies
  - Part 4 examines support, guidance, monitoring and reporting undertaken by LGV.
-

# 2 Financial sustainability

## At a glance

### Background

To be financially sustainable, councils need to be able to meet their current and future expenditure requirements. They also need to be able to absorb foreseeable changes and materialising risks, and manage the impact of their changing revenue and expenditure requirements. Assessing trends in key financial indicators provides insight into the risks to small councils' financial sustainability.

### Conclusion

In 2011–12, Buloke had high-risk, immediate to shorter-term sustainability concerns, while the remaining four audited councils were classed as having a low risk. However, several councils are projected to have deteriorating positions against key financial indicators, which places them at an increased risk of short-term and immediate sustainability concerns.

Over the past five years, the reliance of the audited councils on government grants has increased substantially. While councils have increased the amount of own-source revenue they generate through rates and user charges, it has not been enough to keep pace with their increased costs. Given current Commonwealth and State Budget positions and the economic climate, the audited councils' increasing reliance on grants may expose them to significant financial risk if the number and value of grants are reduced.

### Findings

- On average, government grants have increased significantly as a proportion of total revenue over the past five years across all of the audited councils.
- In 2012, a superannuation defined benefits plan funding shortfall had a significant impact on employee expenses for all of the audited councils.
- Councils have generally not reviewed whether there is scope to introduce or increase user fees and charges.

## 2.1 Introduction

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To be financially sustainable, councils need to be able to meet current and future expenditure as it falls due. They also need the ability to absorb foreseeable changes and materialising risks without significantly changing their revenue and expenditure policies.

Financial sustainability should be viewed from both short- and long-term perspectives. Short-term indicators relate to the ability of a council to maintain positive operating cash flows in the near future, or the ability to generate an operating surplus in the next financial year. Long-term indicators focus on strategic issues such as the ability to fund significant asset replacement or reduce long-term debt. Councils are unlikely to remain viable without effective expenditure management and revenue maximisation practices to underpin long-term organisational sustainability.

An assessment of trends in key financial indicators, based on councils' projections, provides insight into the risks to small councils' financial sustainability that may warrant attention. Similarly, examining trends in the composition of revenue and expenditure highlights potential issues and risks with particular patterns of revenue and expenditure for high-risk councils.

## 2.2 Conclusion

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Over the past five years, the reliance of audited councils on government grants has increased substantially. While rates and charges have increased in real terms, they have decreased as a proportion of revenue over the same period, and this increase in rates and charges has not been enough to keep pace with councils' increase in costs.

In 2011–12, Buloke had high-risk, immediate to shorter-term sustainability concerns, while the remaining four audited councils were classed as having low risk of financial sustainability concerns. However, several councils are projected to have deteriorating positions against key financial indicators, which places them at an increased risk of short-term and immediate sustainability concerns.

Given current Commonwealth and State Budget positions and the economic climate, the audited councils' increasing reliance on grants may expose them to significant financial risk if the number and value of grants are reduced.

## 2.3 Councils' financial sustainability

### 2.3.1 Current and future trends

VAGO's six key financial sustainability indicators, which reflect short-and long-term sustainability over the past five years, provide an insight into the financial sustainability of councils. The indicators are:

- **underlying result**—councils generate enough revenue to cover operating costs, including the cost of replacing assets reflected in depreciation expense
- **liquidity**—councils have sufficient working capital to meet short-term commitments
- **self-financing**—councils generate sufficient operating cash flows to invest in asset renewal and repay any debt that may have been incurred in the past
- **indebtedness**—councils do not overly rely on debt to fund capital programs
- **capital replacement**—councils replace assets at a rate consistent with their consumption
- **renewal gap**—councils maintaining existing assets at a consistent rate.

Appendix A describes the sustainability indicators in more detail, including the risk assessment criteria and the significance of these. The indicators are used to evaluate each council and provide a financial sustainability risk assessment. A high risk of short-term and immediate financial sustainability concerns is indicated by either a high-risk underlying result or liquidity indicator. A medium risk of longer-term financial sustainability concerns is indicated by a high-risk assessment for either of the remaining four indicators—self-financing, indebtedness, capital replacement and renewal gap. A low risk of financial sustainability concerns means there are no high-risk indicators.

VAGO's *Local Government: Results of the 2011–12 Audits* report presents the results of financial audits of Victoria's 79 councils based on the six financial sustainability indicators. Figure 2A shows the results for the audited councils.

**Figure 2A**  
Financial sustainability risk assessment results, 2011–12

Audited councils	Underlying result (%)	Liquidity (ratio)	Indebtedness (%)	Self-financing (%)	Capital replacement (ratio)	Renewal gap (ratio)	Risk assessment
Buloke Shire Council	-7.85	0.93	12.37	25.23	1.02	0.9	High
Golden Plains Shire Council	12.7	2.38	23.86	26.74	2.41	1.17	Low
Strathbogrie Shire Council	4.13	1.76	28.75	26.49	1.28	0.82	Low
Towong Shire Council	4.35	3.01	9.77	32.92	1.24	0.98	Low
Yarriambiack Shire Council	0.17	2.83	9.32	31.62	1.1	0.8	Low

Source: Victorian Auditor-General's Office.



Figure 2A shows that as at 30 June 2012 Buloke had a high risk of short-term and immediate sustainability concerns. This is highlighted by indicators suggesting it has a risk of long-term run-down to cash reserves, inability to fund asset renewals (underlying result) and insufficient current assets to cover current liabilities (liquidity). The remaining four councils in the audit were classed as having a low risk of financial sustainability concerns in 2011–12.

The Minister for Local Government appointed an Inspector of Municipal Administration (the Inspector) to independently assess Buloke’s financial health in response to VAGO’s qualification of its financial accounts in 2010–11—this is discussed further in Part 4.4. A qualification means that the financial report is materially different to the requirements of the relevant reporting framework or accounting standards, and is less reliable and useful as an accountability document.

Figure 2B shows the projected trend for five of the six indicators, based on councils' budget projections, for the period 2012–13 to 2014–15. Projected data is not available for the renewal gap indicator.

**Figure 2B**  
**Financial sustainability indicator projections, 2012–13 to 2014–15**

	Underlying result	Liquidity	Indebtedness	Self-financing	Capital replacement
Buloke Shire Council	↓	↓	→	→	→
Golden Plains Shire Council	→	→	↓	→	↓
Strathbogie Shire Council	↑	↓	↓	→	↑
Towong Shire Council	↑	↑	↓	↑	↑
Yarriambiack Shire Council	↓	↓	↓	↓	→

Note: Key: ↓ downward trend      → no substantial trend      ↑ upward trend  
 Source: Victorian Auditor-General's Office.

Buloke’s underlying result and liquidity is projected to deteriorate over the next three years and it is expected to remain at high risk of short-term and immediate sustainability concerns. Its underlying result improves in 2012–13 due to forecast capital grants from the Natural Disaster Recovery Fund, but it is projected to return to a worse-than-current position by 2015. Other audited councils also show deteriorating results against some indicators over the next three years.

The results suggest Yarriambiack is at risk of potential short-term and immediate financial sustainability concerns due to the deteriorating position of its underlying result and liquidity indicators, while it also has deteriorating indebtedness and self-financing indicators. Similarly, Strathbogie has a deteriorating liquidity indicator, but its underlying result is projected to improve. Its indebtedness indicator is also projected to deteriorate, however, its underlying result and capital replacement indicators are projected to improve.

Golden Plains' capital replacement and indebtedness indicators are projected to deteriorate. Towong's indebtedness indicator is also projected to deteriorate, although its other indicators are projected to improve. The deteriorating indicators for Golden Plains and Towong suggest they are at increased risk of longer-term sustainability concerns if these indicators became high risk.

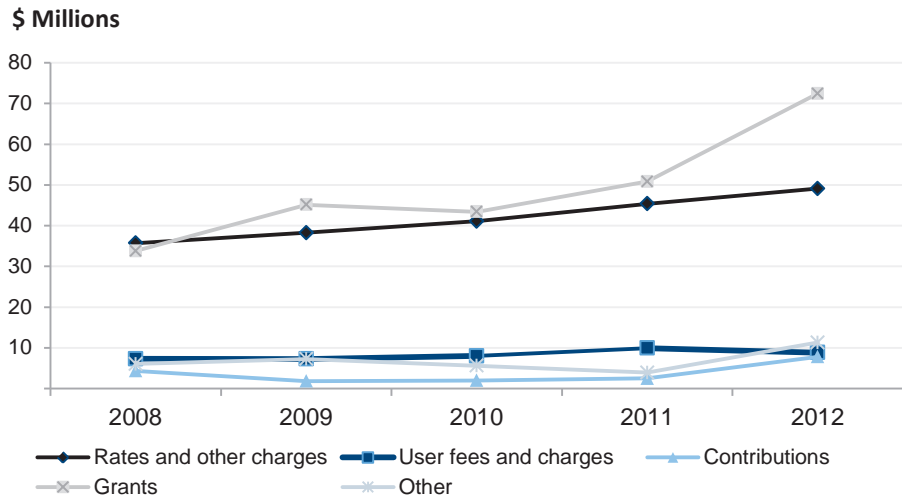
### 2.3.2 Council revenue

Councils generate revenue directly from rates, user fees and a range of charges—known as own-source revenue—and from other sources such as state and Commonwealth Government grants and developer contributions. The main types of revenue are:

- **Rates and other charges**—property taxes including general rates, the municipal charge, service rates or charges, and special rates or charges.
- **User fees and charges**—fees and charges for compulsory services, such as statutory planning fees, or discretionary services, such as recreation services, child care or applications for planning and building permits.
- **Contributions**—payments or in-kind works, facilities or services provided by developers towards the supply of infrastructure such as roads, storm water run-off management systems, open space and community facilities required to meet the future needs of local residents in new land developments.
- **Grants**—financial assistance grants provided by the Commonwealth or state governments. The Commonwealth Government provides general purpose and local roads grants, and councils may also receive grants following natural disasters or other emergency events. The Department of Planning and Community Development administers a range of state government grant programs available to local governments, such as community facility funding, community works grants, country football and netball facilities grants, fire ready community grants and library infrastructure grants.

Figure 2C shows the revenue raised from key sources for the period 2007–08 to 2011–12.

**Figure 2C**  
Total revenue for the five councils



Source: Victorian Auditor-General's Office.

While Figure 2C shows that the amount of grants and rates and charges have increased, grants are the main source of revenue that is increasing as a proportion of total revenue. Figure 2D shows that on average councils' rates and charges, and user fees and charges have decreased as a proportion of total revenue. This implies an increasing reliance on grants to fund expenditure requirements compared to other revenue sources, which is concerning given the current Commonwealth and State Budget positions and economic climate.

**Figure 2D**  
Revenue sources for the five councils as a percentage of total revenue, 2008 to 2012

	Rates and other charges (%)	User fees and charges (%)	Contributions (%)	Grants (%)	Other (%)
2008	41.0	8.3	5.0	38.7	6.9
2009	38.4	7.3	1.9	45.2	7.3
2010	41.1	8.0	2.0	43.4	5.6
2011	40.3	8.8	2.2	45.2	3.5
2012	32.8	5.9	5.2	48.5	7.6
Average rate of change per year	-1.4	-0.3	0.1	1.9	-0.3

Source: Victorian Auditor-General's Office.

The amount of grants for the audited councils has more than doubled over five years from \$33.766 million in 2007–08 to \$72.434 million in 2011–12. This equates to an average increase of 25 per cent per year. The increase in grants as a proportion of total revenue averaged 1.9 per cent a year. Over the same period, rates and charges and user fees and charges increased from \$35.714 million to \$49.083 million and \$7.275 million to \$8.810 million respectively, but councils' reliance on these has declined over the same period by 1.4 per cent and 0.3 per cent per annum respectively. This means that despite increases in real terms, councils' own-source revenue has decreased proportionally by an average of 1.7 per cent per year.

Therefore, while councils have increased the amount of own-source revenue they generate through rates and user charges, it has not been enough to keep pace with their increase in costs. Despite all five audited councils having committed to maintaining existing service levels, there is limited evidence that they have comprehensively reviewed their services or service levels. Councils have generally not reviewed whether there is scope to introduce, or increase user fees and charges to at least partially address their revenue requirements. Golden Plains advised it conducted a review of user fees and charges during the 2012–13 budget process, and that an outcome of the review was to increase non-statutory fees by 9.5 per cent. However, it was unable to provide documentary evidence of this review to show the analysis and rationale underpinning the decision to increase fees.

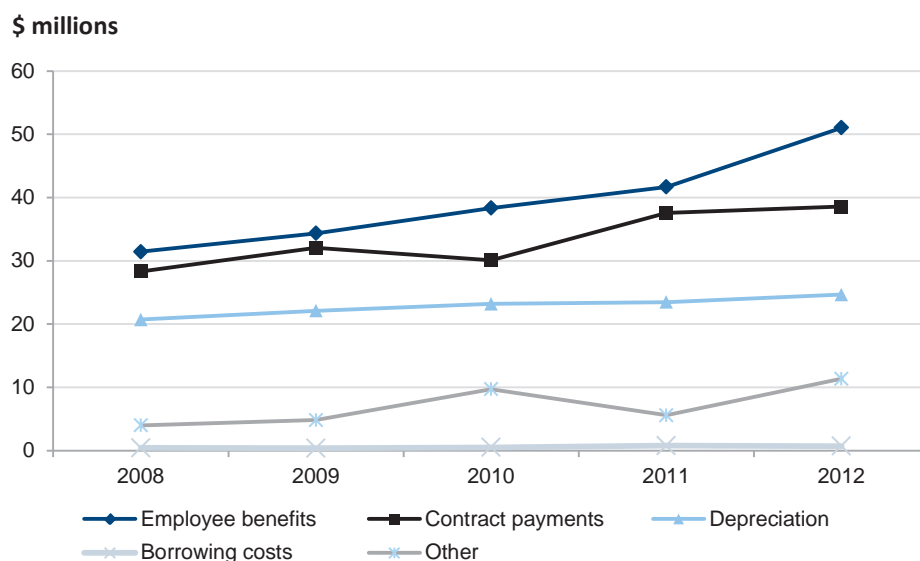
### 2.3.3 Council expenditure

Councils have a range of operating expenses, including the following key expenses:

- **employee benefits**—includes wages and salaries, leave entitlements, redundancy payments and superannuation contributions
- **contract payments**—includes payments for services delivered by contractors, such as waste collection or parks and gardens maintenance, and council staff positions that are filled by contractors
- **depreciation**—the systematic allocation of a fixed asset's capital value as an expense over its expected useful life to take account of normal usage, obsolescence, or the passage of time
- **borrowing costs**—costs such as interest associated with borrowings taken out to fund council expenditure.

Figure 2E shows the trend in key expenses for the period 2007–08 to 2011–12.

**Figure 2E**  
Total expenses for the five councils



Note: 'Other' includes a range of expenses such as travel costs and printing.

Source: Victorian Auditor-General's Office.

Figure 2F shows the councils' key expenses over the period 2007–08 to 2011–12 as a proportion of total expenses.

**Figure 2F**  
Expenses for the five councils as a percentage of total expenditure, 2008 to 2012

	Employee benefits (%)	Contract payments (%)	Depreciation (%)	Borrowing costs (%)	Other (%)
2008	37.0	33.4	24.4	0.5	4.7
2009	36.7	34.2	23.6	0.4	5.1
2010	37.7	29.6	22.8	0.5	9.5
2011	38.2	34.5	21.5	0.7	5.1
2012	40.4	30.5	19.5	0.6	9.0
Average rate of change per year	0.8	-0.5	-1.2	0	0.9

Source: Victorian Auditor-General's Office.

Overall, increasing expenses for the audited councils are largely being driven by higher employee benefits and contract payments. Employee benefits have risen from \$31.429 million in 2008 to \$51.053 million in 2012, which represents an average increase of 0.8 per cent per year as a proportion of total expenses. Advice from LGV to government suggests that local government recurrent expenditure has increased by more than twice the rate of inflation over the past decade, and aggregate expenditure on salaries and wages has increased by almost three times the national average in public sector wages and salaries over the same period.

The sharper increase in employee benefit expenses in 2012 is due to the funding call on the Local Authorities Superannuation Fund Defined Benefits Plan. In 1998, state legislation governing the scheme was repealed and it became a 'regulated fund' under Commonwealth Government legislation, which introduced a requirement for it to be fully funded. Of the audited councils, Buloke, Towong and Yarriambiack's liability is the highest in real terms and as a proportion of their rates revenue. The funding liability will have an impact on councils' liquidity, and may worsen this indicator. Councils have adopted a range of different strategies to meet their liability—these are discussed in section 3.3.6.

Contract payments, such as waste collection services, increased from \$28.293 million in 2008 to \$38.375 million in 2012, but decreased in terms of the proportion of total expenses by an average of 0.5 per cent per year. There was no change in borrowing costs as a proportion of total expenses. Depreciation expenses decreased as a proportion of total expenses, however, this is due to other expenses such as employee benefits increasing by a much greater amount. In real terms depreciation expenses increased fairly uniformly, by an average of 4.5 per cent per year. While there have been some changes with regard to how much key expenses represent in terms of overall expenses—particularly the increase in employee benefits—the mix of different expense categories has remained relatively stable over the past five years.

Given the risks to the audited councils' financial sustainability, it is essential that they effectively plan their long-term financial management and their management of assets. They should also efficiently and effectively deliver services and maximise the revenue they generate from service delivery so that this contributes to meeting their revenue requirements. These elements are discussed further in Part 3.



# 3 Sustainability issues, challenges and strategies

## At a glance

### Background

Small councils should have a sound understanding of their sustainability issues and challenges and develop appropriate strategies to address these and mitigate their impact as far as possible. They should also have effective long-term planning and asset management, deliver services effectively and efficiently and position themselves to remain viable in the medium- to long-term.

### Conclusion

The audited councils generally have a sound understanding of sustainability issues and challenges and have implemented a range of strategies to address them. However, in some instances actions do not address the core problem. Councils generally cannot demonstrate the effectiveness of strategies or actions and whether these are having a material impact on improving their sustainability. There is scope to improve in financial, asset and service planning and management, and to better link actions to sustainability challenges and outcomes.

### Findings

- Audited councils generally face common sustainability issues and challenges.
- All councils except Yarriambiack have recently developed long-term financial plans, but these vary in quality and are not sufficiently integrated with asset management.
- Councils cannot demonstrate that service delivery is efficient and effective.

### Recommendations

- Councils should clearly identify and publicly report their sustainability challenges and actions, and how they will monitor, evaluate and report on their effectiveness.
- Yarriambiack Shire Council should develop a long-term financial plan and all councils should update their existing plans in accordance with better practice.
- Councils should review service planning and delivery as a priority.



## 3.1 Introduction

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Small councils face a number of issues and challenges that impact organisational sustainability. They should have a sound understanding of the particular issues and challenges impacting their sustainability and develop appropriate strategies to address these to mitigate their impact as much as possible.

It is important that small councils' operations are underpinned by effective financial planning and asset management, and effective and efficient service delivery. Councils also need to be vigilant in monitoring risks and factors likely to significantly affect sustainability. This may not in itself provide assurance that a council will be sustainable; however, it will position councils better to remain viable in the medium to long term.

## 3.2 Conclusion

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The audited councils generally have a sound understanding of the sustainability issues and challenges they face. However, it is not evident that all of their strategies and actions are effectively addressing the identified issues. While some council strategies are supported by analysis and are well informed, other responses have been reactive and are not underpinned by a strategy that addresses the core problem.

While councils have made some efforts to improve planning for long-term financial sustainability, managing assets, and delivering services effectively and efficiently, further work is required in these areas. Four of the five councils have developed long-term financial plans; however, these vary in quality and are not adequately integrated with asset management plans. Councils generally do not plan or deliver services in accordance with Best Value Principles and cannot demonstrate they are delivering services efficiently and effectively. Consequently, councils cannot demonstrate they are operating as efficiently and effectively as possible.

## 3.3 Organisational sustainability challenges, issues and planning

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Councils should have a sound understanding of the sustainability challenges and issues they face, and develop and implement strategies to address these. Issues and challenges are generally identified in council plans, strategic resource plans, annual reports, annual budgets and rating strategies. There are a number of common sustainability issues and challenges across the audited councils, including:

- having effective financial planning and asset management
- effectively and efficiently delivering services
- recruiting and retaining qualified and skilled staff
- dealing with the impact of population ageing and/or population changes
- dealing with the defined benefits superannuation shortfall.

### 3.3.1 Long-term financial planning

Effective long-term financial planning is crucial to sustainability and is particularly important for councils that are responsible for managing and generating service from a large stock of long-lived assets relative to their annual income. Councils need to deliver services that meet community needs in a financially sustainable manner, and plan for the needs of current and future generations. In the past, councils have relied on a short-term financial planning horizon, which was essentially limited to the annual budget processes. This approach limits councils' ability to adequately plan for their long-term financial sustainability.

#### Better practice

A long-term financial plan expresses in financial terms the activities and level of services that a council proposes to undertake or provide over the short, medium and long term to achieve the objectives in its council plan. It should guide future strategies and confirm that the council can remain financially sustainable.

It is not mandatory in Victoria for councils to develop a long-term financial plan and there is no existing statewide guidance to assist councils. However, in January 2012 the Commonwealth Government released a better practice guide (*Institute of Public Works Engineering Australia Practice Note No. 6 – Long-Term Financial Planning – Version 1.0*, January 2012). Based on this guide, a long-term financial plan:

- is a high-level document that can be easily understood by the community, rather than a series of complex spread sheets—although councils may develop these for internal use
- includes a brief narrative overview to help the reader understand the purpose of the plan, the basis of its preparation and the key conclusions that can be drawn from the financial data
- has robust and reliable financial data at a summary level based on accrual accounting financial statements, including projected income and expenditure, balance sheet and cash flow statement—accrual accounting is important for financial sustainability since it measures the performance and position of a council by recognising economic events regardless of when cash transactions occur to give a more accurate picture of the current financial condition
- has a clear financial strategy on which the plan is based, such as a rating strategy and borrowing strategy, for achievement of financial sustainability
- has a small number of key performance indicators for measuring financial sustainability that are relevant and appropriate—a relevant indicator has a logical and consistent relationship with the plan's objectives and an appropriate indicator is one that is underpinned by sufficient information to assess its achievement against objectives, outcomes and outputs—and include targets that are clearly linked to objectives
- has a sensitivity analysis that highlights key factors most likely to materially impact on the achievement of the plan's financial targets, such as anticipating a significantly high level of population growth in its area which may affect operating revenue and expenses

- is integrated with a council's asset management and capital works statement— see Section 3.3.2 Asset management planning
- is reviewed and updated at least annually
- is publicly reported.

### Assessment of current plans

Golden Plains developed a long-term financial plan in 2006, while Buloke, Strathbogie and Towong developed their plans in the past two years. Yarriambiack has committed to developing a long-term financial plan in its last three annual budgets, but has not yet done so. While Yarriambiack advised that it prepares 10 years of financial projections as part of the development of its strategic resource plan, these do not contain the key elements of a long-term financial plan. Yarriambiack advised that it plans to engage an external party to develop a long-term financial plan.

Figure 3A summarises our assessment of existing council long-term financial plans against key attributes from the Commonwealth Government better practice guide, which sets out the recommended elements of a long-term financial plan.

**Figure 3A**  
**Assessment of long-term financial plans against better practice**

Key attribute	Council			
	Buloke	Golden Plains	Strathbogie	Towong
Plan developed	2011	2006	2011	2012
Time period covered	10 years	10 years	10 years	10 years
High-level document	✓	✓	✓	✗
Brief narrative overview	✓	✓	✓	✗
Financial data	✓	Not cash flow	✓	✓
Financial strategy	✓	✓	✓	✗
Performance indicators for measuring financial sustainability	✓	✓	✓	✗
Relevant and appropriate	✗	✗	✓	n.a.
Clear targets	✗	✗	Partially	n.a.
Small in number	✗	✓	✓	n.a.
Sensitivity analysis	✗	✗	✗	✗
Reviewed at least annually	✓	n.a.	✓	✓
Publicly reported	✓	✓	✓	Partially

Source: Victorian Auditor-General's Office.

Golden Plains and Strathbogie's plans are high-level, stand-alone documents that are publicly available, while Buloke's plan is incorporated into the council's strategic resource plan. Towong's plan consists of a series of spread sheets and, while four years of financial projections from the plan were reported in its strategic resource plan in the annual budget, the rest of the plan is not publicly available.

All of the plans contain the recommended financial data at a summary level based on accrual accounting financial statements, except Golden Plains which does not include a cash flow statement. Without this, it is difficult to measure some performance indicators, such as cash balance and discretionary retained earnings.

Buloke, Golden Plains and Strathbogie's indicators measure factors that define financial sustainability; including, operating surplus and underlying result. However, only Strathbogie's indicators are relevant and appropriate as they have a logical and consistent relationship with the plan's objectives. Strathbogie's is also the only plan that contains clear targets against indicators—such as those for asset renewal investment and borrowings—although it does this for only two of the six indicators. Buloke uses a large number of indicators, which could make it difficult for decision-makers and stakeholders to interpret results and gain a clear understanding of outcomes or the council's position.

It is important that monitoring, evaluation and reporting of performance indicators is conducted routinely and remedial action is taken where performance targets or expected results are not achieved. Most of these plans have only recently been developed, so it is too early to say whether councils are doing this. The plans do not provide any information about whether the councils propose to review and/or report publicly on these indicators and if so, how often.

All of the councils have reviewed and updated their plans at least annually. However, they have not explained in their plans what, if any, changes have been made from the review process. For example, Buloke deleted, without explanation, one of the 2011–12 plan's objectives to 'achieve a break even operating result within five years'. Buloke has advised that this objective was removed due to substantial costs relating to flood recovery impacting on the council's ability to achieve it. However, removing the objective without providing an explanation reduces transparency and does not represent good practice in performance monitoring and reporting.

While the plans, particularly Strathbogie's, reflect a number of better practice elements, work is needed by all councils to address deficiencies, and effectively plan their finances from a long-term perspective to support their sustainability.

### 3.3.2 Asset management planning

Effective asset management planning is also crucial to long-term sustainability. Councils' infrastructure assets represent a vast investment that has been built up over many generations and includes roads, bridges, drainage, buildings, parks and recreational facilities. Assets are acquired for their service delivery potential, so service delivery needs should form the basis of all asset management practices and decisions.

Robust asset management planning is required for councils to effectively manage their significant stock of assets. This planning is necessary to guide the scheduling of maintenance, refurbishment, renewal and replacement of assets and to achieve specific service levels, while minimising asset life cycle costs. Asset management plans should also set out expenditure projections as input for the long-term financial plan. Councils have more than one asset management plan because they generally develop separate plans to cover each major asset class.

A standard statement of capital works sets out actual against planned capital expenditure that relates to larger assets, including property, plant and equipment.

### Current status

All of the audited councils had asset management policies, strategies and plans, and have made efforts to improve asset management through training and support programs, such as participation in the Municipal Association of Victoria's Asset Management Improvement 'STEP' program. As part of this program, each council completed self-assessments of their asset and financial management, and used these to develop a prioritised improvement plan. These assessments indicate that there is still scope for improvement, particularly in relation to asset management plans.

### Integration with long-term financial plans

It is important that asset management plans and capital works statements are appropriately integrated with long-term financial plans so that these needs are adequately considered in financial planning. Of the four councils with long-term financial plans, each committed in their asset management policy or strategy to integrate their asset management plans with their long-term financial plans.

A key aspect of integrating asset and financial planning is for councils to develop 10-year expenditure projections in asset management plans and then use these to populate the capital works statements in the long-term financial plan. While all long-term financial plans contain a capital works statement, which covers material assets and their expenditure forecasts over the next 10 years, none of the asset management plans contain up-to-date 10-year expenditure forecasts. Councils' asset management plans either contain out-of-date figures (Buloke and Strathbogie), short-term projections (Golden Plains), and/or plans are still under development (Towong, Golden Plains and Strathbogie). This provides limited assurance that each council's asset management requirements were appropriately considered in developing the figures in the capital works statements. However, Buloke has advised that its plans have not been updated due to uncertainty related to the timing of funding for flood recovery.

### 3.3.3 Efficient and effective service delivery

Councils deliver a wide range of services to their communities. Some local government service delivery is mandated or unavoidable—for example, statutory obligations—while some is essentially discretionary to meet the needs of communities, such as providing swimming pools and family day care. Even within the context of necessary expenditures, there is scope to decide what the appropriate nature of the service and service levels should be.

#### Service reviews

The *Local Government Act 1989* requires councils to provide services in accordance with the Best Value Principles, which include considering service cost and quality standards, value for money, and community expectations and values. The principles also call for balance between affordability and accessibility of services.

Councils should conduct regular service reviews in accordance with the Best Value Principles to assess the effectiveness and efficiency of their services, and to take action where necessary so that their services continue to meet the community's needs and prevent creating an unnecessary impost if inefficient.

Other than narrow reviews of specific services, such as to identify cost savings, none of the audited councils have undertaken comprehensive reviews of the services they provide in accordance with Best Value Principles. They have also not reviewed service levels to assess the effectiveness and efficiency of service delivery. This provides limited assurance that expenditure on service delivery is informed by an adequate understanding of community needs or the effectiveness and efficiency of council services. Nevertheless, all councils have committed to maintaining existing services and the independent review of Buloke's finances found that the council's commitment to maintaining existing service levels was unsustainable.

Only Towong has completed a service review based on the Best Value Principles, but this was only for one service—the councils' records management service. This review was facilitated by LGV in June 2012 in connection with the Local Government Reform Fund and was part of the Building Best Value Capacity Project in collaboration with four other councils—Alpine, Campaspe, Indigo and Moira. This is discussed further in Part 4.3.

Other reviews by the audited councils have been primarily limited to cost analysis and do not constitute a comprehensive service review in accordance with Best Value Principles. Examples of the reviews conducted include:

- Towong recently secured funding from the state government through the Sustainability Fund for a Demand Reduction Program that is currently being undertaken with Indigo Shire Council. This aims to achieve environmental and efficiency savings of \$250 000 per year and such a program could be replicated across other councils.
- Buloke has conducted a number of reviews of services to identify cost savings. In response to recommendations from the Inspector of Municipal Administration's review, it has committed to undertaking a comprehensive analysis of services, which it suggests will be progressively implemented as resources allow. This is based on the Inspector's finding that it is financially unsustainable to maintain existing service levels. Work will include a cost-benefit analysis of discretionary services to determine which should be ceased, deferred or continued.

### Consulting with the community about service delivery

Councils use a variety of mechanisms to engage with their communities to provide feedback on services and projects. However, the community consultation that occurs tends to be related to new projects, infrastructure or proposed services that councils plan to deliver, or to seek feedback on the draft council plan. Councils could not demonstrate they had adequately sought, considered and analysed community needs in relation to council services when initially formulating their council plans.

Better consultation with communities on their ability and willingness to pay for both existing and new services and assets when developing council plans could be used to assess overall service delivery levels. This could help councils to determine required levels and to prioritise the delivery of services appropriate to the needs of communities. The current approach provides limited assurance that council plans adequately reflect residents' needs as the community is not involved in the initial development.

Strathbogie is currently conducting community consultation to inform the development of its council plan, which includes conducting a survey that asks respondents to rank council services in importance. However, it is too early to assess the effectiveness of this in prioritising services and informing overall service levels.

### Shared services

All audited councils participate in shared services with either neighbouring councils or other organisations in their region. This includes both internal operational activities and the delivery of council services. These arrangements generally involve sharing a component of the activity or service, such as information sharing to plan services, or sharing a resource, rather than the full delivery of a service. The main current and proposed shared services arrangements and the councils participating in them are shown in Figure 3B.

**Figure 3B**  
**Main types of shared services at audited councils**

Shared service	Councils				
	Buloke	Golden Plains	Strathbogrie	Towong	Yarriambiack
<b>Operational activities</b>					
Business improvement				✓	
ICT		✓		✓	
Payroll			✓		Proposed
Procurement		✓			✓
<b>Council services</b>					
Aged and disability	✓	✓			
Building services		✓		Proposed	
Child/family/youth	✓	✓			
Environment		✓		✓	
Emergency management		✓	✓		✓
Health	✓	✓		✓	
Library	✓	✓	✓	✓	✓
Roads	✓	✓	✓		
Transport	✓	✓			✓

*Note:* Some councils also use the same contractor to deliver services, but not through a formal arrangement and this is not considered a shared service. These types of arrangements are not included in the table.

*Source:* Victorian Auditor-General's Office based on information from audited councils.

The necessary rationale for councils adopting shared services is generally not clearly documented and is therefore difficult to assess. Although it is reasonable to expect there to be savings and efficiencies through sharing these activities, there have been no evaluations of the arrangements and so the extent of this is not known. Therefore, it is not clear that sharing these services is improving the sustainability of these councils. With some exceptions, such as libraries, these arrangements are not mature or undertaken on a large scale.

### 3.3.4 Recruiting and retaining qualified and skilled staff

Small councils in regional and rural areas can face challenges in attracting appropriately qualified and skilled staff and may also experience difficulty in retaining staff. A council's location within the region and its proximity to large regional towns can also affect this.

This can be a particular problem when positions that are hard to fill and have a high turnover are critical to service delivery and council operations.



The State Services Authority (SSA) has identified common challenges for the public sector located in rural and regional Victoria, which also apply to small councils, including:

- a low interest or even no response to particular job advertisements
- a reliance on people needing to relocate to take up critical roles
- prospective candidates being unfamiliar with their region or living in a regional and rural area
- negative perceptions of rural and regional living
- no local tertiary institutions supplying graduates with the required qualifications
- private and not-for-profit organisations offering more attractive remuneration or conditions
- partners of applicants or new staff needing to find work in the area
- limited accommodation for staff or few options that meet their expectations.

## Strategies

Workforce planning is one strategy that may assist councils to identify workforce needs, the barriers to attracting and retaining staff, and approaches to address the problem. SSA's 2006 *Workforce Planning Toolkit* for small to medium sized Victorian public service organisations recommends that a workforce planning framework include the following six elements:

- **workforce analysis**—analyse the workforce against organisational direction, internal workforce characteristics and capabilities, external labour market and environmental factors
- **forecast future needs**— identify future business needs, scenarios and workforce characteristics and capabilities
- **analyse gaps**— identify and analyse the gaps between future workforce needs and current workforce profile
- **develop strategies**—develop integrated business and human resources strategies to address the gaps between current and future workforce needs
- **implement strategies**—invest in strategies and change management processes to address workforce planning issues
- **monitor and evaluate**—evaluate the effectiveness of strategies to determine success of planned changes and impact on business performance.

All audited councils except Yarriambiack identified recruiting and retaining appropriately qualified and skilled staff as an issue, and some councils have implemented strategies to address these problems.

Golden Plains developed a workforce plan in 2009. This plan contains a number of elements recommended by the SSA's guide, including a workforce analysis, forecast of future needs, analysis of gaps and development of strategies. These strategies include succession planning for high priority positions, flexible employment arrangements, and working with regional universities to identify engineering students interested in a career in local government. However, there is no evidence that these strategies have been implemented or evaluated for their effectiveness. While there have been no formal evaluations of the plan itself, council advised it has been effective in informing decisions about staffing levels when preparing the annual budget, identifying gaps, career planning for existing staff, and potential replacement of key staff—due to pending retirement, for example.

Strathbogie completed an organisational review in January 2011, which included voluntary redundancies, the creation of several new positions and the development of a new organisation structure. The review recommended that Strathbogie develop a workforce plan, initially for outdoor staff, and then the whole organisation. However, council has not yet done so.

Councils also outsource positions, including statutory roles, such as building surveyors and planning officers. Councils advised that these positions can be difficult to fill and that this may be due to the remuneration offered being uncompetitive in the current employment market, applicants not wanting to relocate to regional areas, or only requiring part-time positions for these professions. While Yarriambiack advised that staff recruitment was not an issue, they also outsource these statutory positions. Outsourcing may address the issue in the short term, and maintain ongoing service delivery, however, councils have not assessed whether this is more cost effective than employing staff directly. It is also not addressing the core problem of recruiting and retaining staff and may not be sustainable in the long term.

### 3.3.5 Population ageing and/or population changes

Population ageing and/or population changes—such as high growth or decline—can present challenges to small councils. Population changes can impact on councils' rating base and change service delivery needs. Population decline can also result in higher unit costs of service delivery because of the fixed nature of some costs. Rapid population growth can place significant financial pressure on councils to put new or expanded services in place. Given declining and ageing populations, continuing to increase rates and charges may not be sustainable for some councils.

Figure 3C summarises the trends and forecasts in population changes for the audited councils from 2001 to 2031. It shows that with the exception of Towong, there are consistent trends for these councils across the 30-year period of either increasing (Golden Plains and Strathbogie) or decreasing (Buloke and Yarriambiack) populations.

**Figure 3C**  
**Past, current and projected populations, 2001 to 2031**

Council	Population in 2001	Population in 2011	Percentage change 2001–11	Projected population in 2031	Percentage change 2011–31
Buloke	7 331	6 925	–5.5	6 519	–5.8
Golden Plains	15 101	19 014	+25.9	26 870	+4.1
Strathbogie	9 648	10 060	+4.3	11 085	+10.2
Towong	6 331	6 276	–0.9	6 552	+4.4
Yarriambiack	8 311	7 498	–9.8	6 900	–8.0

Source: Victorian Auditor-General's Office.

Buloke and Yarriambiack have ageing populations, which together with population decline, raises particular sustainability issues for these councils. Growth rates in Golden Plains will result in it no longer being classified as a small council in the future.

## Strategies

Buloke has developed a draft Positive Ageing Strategy 2013–19 to guide it in responding to the projected rapid growth of its aged population, but it does not address continuing population decline. While Yarriambiack had a *2009–12 Economic Development Strategic Plan* that aimed to promote economic development in the shire, this plan contains limited analysis on population decline and does not directly link actions to address this issue.

Golden Plains has implemented strategies to deal with both a growing and ageing population. The council's *2012–16 Ageing Well in Golden Plains Strategy and Action Plan* provides a detailed analysis of the shire's population demographics. The main aims of the plan are to enable the council to effectively respond to population growth, and to inform the direction, development and delivery of its aged services and programs. To assist in meeting growth in the number of young families, Golden Plains has implemented service improvement plans for kindergarten clusters and maternal and child health services.

Strathbogie is currently developing an *Economic Development Master Plan 2013–17* to guide the future of economic development in the shire. The plan is expected to include strategies to promote consistent population growth.

Towong has investigated opportunities to encourage population growth in specific localities—Peninsula area, Corryong and Tallangatta—and developed a number of long-term strategies for individual township development, including *Tallangatta Tomorrow* (complete), *Our Bellbridge* (project underway), and *Upper Murray 2030* (funds committed but not commenced).

The strategies discussed above are relatively new or in development and have not been evaluated or reviewed, therefore it is not yet possible to assess their effectiveness in dealing with the population issues the councils are facing.

### 3.3.6 Defined benefits superannuation shortfall

As discussed in Part 2.3.3, funding calls to address shortfalls in the councils' defined benefits scheme has impacted on councils, and different strategies have been adopted by councils based on the super fund's (Vision Super) payment options to meet their liability. The impact of this shortfall highlights the vulnerability of small councils to unplanned events and their limited capacity to absorb impacts of this magnitude without compromising financial sustainability.

The payment of the shortfall could potentially result in additional borrowings, changes to service delivery, increases in rates, and the deferral of capital projects. While all audited councils noted the shortfall payment in their annual budget, only Buloke and Strathbogie made information publicly available about the financial impact of the payment on council. Buloke indicated there would be delays in some planned projects of at least 12 months and some changes to service delivery plans. Strathbogie does not expect a noticeable impact due to several grant applications for capital works projects being unsuccessful, which made funds the council had set aside to contribute to these projects available to pay the liability. Yarriambiack has only recently made a decision on its payment strategy. Figure 3D shows each council's liability as a percentage of total rates revenue and their strategy to address the liability.

**Figure 3D**  
**Council strategies to address superannuation funding shortfall**

Council	Liability (\$ million)	Liability (as percentage of total rates revenue)	Council strategy to address liability
Buloke	1.90	22	Council took out long-term borrowings for the full amount and is paying over a three-year period
Golden Plains	0.42	2.7	Council is paying over a five-year period
Strathbogie	1.26	8.9	Council paid early to receive a discount
Towong	1.04	16.6	Council paid early to receive a discount
Yarriambiack	2.11	23.2	Council took out long-term borrowings for part of the amount and is paying over a five-year period. Council proposes to fund the balance through long service leave cash investment and budget cuts of 2.5 per cent in 2012–13.

Source: Victorian Auditor-General's Office based on information from audited councils.

The Municipal Association of Victoria identifies that there are actions councils could take to reduce future calls on councils, such as making greater efforts to set aside capital that could be used to top up the scheme, and being mindful of the impact that large employee pay rises have on increasing the size of the benefit.

### 3.3.7 Effectiveness of strategies

Most existing performance indicators of the audited councils relate to financial sustainability and performance and asset management. Councils do not have relevant and appropriate performance indicators for specific actions or to measure sustainability beyond financial parameters. The material impact of specific actions and strategies adopted by councils on their sustainability is unclear. Strategies have either only been recently implemented, or councils have not undertaken adequate monitoring, reporting and evaluations of actions and the outcomes achieved to determine their impact.

For all of the audited councils, a small number of sustainability strategies are linked to performance measures in the council plan, such as the development of long-term financial plans or strategies to deal with population issues. These measures relate to developing the strategies themselves and not their effectiveness, and they do not constitute relevant and appropriate performance measures.

#### Recommendations

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1. Councils should clearly identify and publicly report their sustainability challenges and associated strategies and actions, including how they will monitor, report and evaluate their effectiveness, using relevant and appropriate performance indicators.
  2. Yarriambiack Shire Council should develop a long-term financial plan and all councils should update their existing plans in accordance with better practice.
  3. Councils should review service planning and delivery in accordance with Best Value Principles as a priority, including:
    - assessing overall service delivery levels to determine appropriate levels and provide the rationale for their decision
    - consulting with their communities on their ability and willingness to pay for desired services in the development of the council plan
    - developing a plan to regularly review all services over time.
-

# 4 Support, guidance, monitoring and reporting

## At a glance

### Background

Providing appropriate support and guidance is important to assist small councils to remain sustainable. Local Government Victoria's (LGV) role includes overseeing, supporting, and encouraging local government and providing advice and support to councils in relation to their roles and responsibilities under the *Local Government Act 1989*.

### Conclusion

While LGV provides a range of general guidance and support that is applicable to small councils addressing some of their sustainability concerns, there are opportunities to directly target support to areas of challenge for them to support building their capability and resilience. LGV monitors and reports on the sustainability of councils and has implemented actions to address specific issues at small councils who are in critical situations. However, there are opportunities to more proactively target small councils with appropriate support and advice before their situation becomes critical.

### Findings

- LGV does not have strategic priorities targeting sustainability of small councils, although it provides a range of guidance and support related to sustainability.
- LGV's guidance on asset management needs to be reviewed and updated.
- LGV has committed to implementing a performance reporting framework to provide a common suite of sustainability performance indicators for councils.

### Recommendations

The Department of Planning and Community Development should:

- review and update its asset management guidance
- consider making the development of a long-term financial plan mandatory
- routinely review the guidance and support it provides so that it is aligned with areas of highest need and addresses gaps in councils' capability and capacity
- expedite the implementation of the planned performance reporting framework and make sure it includes appropriate sustainability indicators.

## 4.1 Introduction

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Local Government Victoria's (LGV) role includes supporting and advising the Minister for Local Government in administering the *Local Government Act 1989* (the Act). It is also responsible for overseeing, supporting and encouraging local government and providing advice and support to councils in relation to their roles and responsibilities under the Act.

It is important that appropriate support and guidance is provided to small councils. This includes driving the adoption of better practices, improving their capability and providing targeted support or intervention when required.

## 4.2 Conclusion

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LGV provides a range of general guidance and support, which is applicable to the sustainability of small councils, including developing and disseminating better practice guides, delivering programs and developing a local government performance management framework. However, there are opportunities to directly target support to areas of challenge for small councils to support building their capability and resilience.

LGV conducts various monitoring and reporting activities to identify councils at high risk of sustainability issues. It has advised the minister about these and implemented actions to address issues once they have become critical. LGV could more proactively target small councils with appropriate support and advice before their situation becomes critical. The development of LGV's performance management framework provides an opportunity to more closely monitor councils' sustainability and respond appropriately to support councils on a timely basis.

## 4.3 Guidance and support to councils

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While LGV does not have strategic priorities targeted specifically to the organisational sustainability of small councils, a number of priorities in its 2012–13 business plan are directly relevant to small councils and sustainability, including to:

- strengthen the capacity of the sector to plan strategically with the community and allocate available resources in a sustainable manner
- strive for long-term financial sustainability in the sector with growth in revenue raising levels matched to each municipality's demand for services and consideration of their capacity to pay.

Under the plan, LGV is accountable for 28 key deliverables that will contribute towards the achievement of the strategic priorities, including the delivery of various programs and the development of the local government performance reporting framework.

LGV provides a range of guidance and support to councils broadly related to sustainability. This includes issuing better practice guides covering areas, such as asset management, procurement and Best Value service delivery, including:

- *Asset Management Policy, Strategy and Plan (2004)*—guidelines for developing an asset management policy, strategy and plan
- *Victorian Local Government Best Practice Procurement Guidelines (2013)*—guidelines for dealing with the procurement cycle (planning, implementation, management and performance evaluation), reporting on procurement and meeting obligations under the Act
- *A Guide to Achieving a Whole of Organisation Approach to Best Value (2006)*—designed to assist in developing or enhancing formal or informal improvement and planning frameworks to effectively incorporate the Best Value Principles — developed in partnership with Local Government Professionals (LGPro) Corporate Planner's Network and the Best Value Commission.

The *Asset Management Policy, Strategy and Plan* and *A Guide to Achieving a Whole of Organisation Approach to Best Value* guides were developed several years ago and need to be reviewed. The 2006 Best Value guide is currently under review, and LGV advised that the 2004 asset management guidelines will be reviewed and updated in 2014.

LGV has initiated a number of strategies and programs aimed at sustainability that involve or apply to small councils. These include:

- **Building Best Value Capacity**—working with 10 regional and metropolitan councils to conduct Best Value service reviews of records management and customer service. Three small councils (Alpine, Indigo and Towong) were involved in the program. Project outcomes included the delivery of Best Value reviews, enhanced knowledge and skills in conducting Best Value reviews, and review and update of guidance. Legislative reform is also being considered in response to participating councils identifying a lack of clarity and definition in Best Value legislation as a barrier to conducting Best Value reviews.
- **Procurement in Practice**—working with five councils (including the small councils of Ararat, Golden Plains, Hepburn and Pyrenees) to undertake a collaborative procurement of their bituminous resealing programs. This is anticipated to result in potential cost savings of \$3.1 million over five years if all participating councils elect to take up the contract options. Other program outcomes include procurement tools and templates being made available to the sector and project learnings informing the update of the 2012 guidelines.
- **Asset Management, Financial Planning and Performance Measurement project**—a research-based project that commenced in 2012, which will assess the quality of data and decisions that have been driven by asset management and financial planning programs across Victorian councils.
- **Local Government Performance Reporting Framework**—discussed in Part 4.4.



- **A review of the status of asset management practices in Victorian local governments**—the review was commissioned in October 2012. A discussion paper developed from this review will be the subject of five regional forums to inform the development of a strategic plan to guide a refocusing of asset management efforts across Victorian councils.

While LGV conducts evaluations of its programs, these could be improved. For example, LGV could collect information from participating councils to assist in determining the effectiveness and suitability of its program for individual councils and to inform the development of future programs.

LGV also works in partnership with peak and industry bodies on strategies and programs. Examples are described in Figure 4A.

**Figure 4A**  
**Strategies and programs delivered by Local Government Victoria in partnership with peak and industry groups**

Strategy/Program title	Description	Delivered in partnership with
Local Government Reform Fund program	Aims to assist councils to improve their financial and resource management capabilities and business practices. A number of initiatives have been developed through this initiative, including the previously discussed Building Best Value Capacity and Procurement in Practice programs	Overseen by a steering committee including council Chief Executive Officers, the Municipal Association of Victoria, LGPro, VAGO and the Local Government Investigations and Compliance Inspectorate
Councils Reforming Business Program	Aims to support councils to improve services, decrease costs and reduce red tape for businesses working with them, including in the areas of procurement, local laws, shared services and affordable housing. Project outcomes included 53 councils—including 14 small councils—working together on various procurement projects funded by grants, establishing the Local Government Procurement Training Program, and developing six projects to encourage shared services by councils in various areas, such as ICT services	MAV
Local Government Procurement Special Interest Group	Aims to facilitate sector-wide reform and networking for procurement improvement.	LGPro

Source: Victorian Auditor-General's Office.

While LGV are involved in a number of programs relevant to supporting council sustainability, this audit identified a number of common issues across councils that may require more targeted support and guidance and/or coordination by LGV. These include the recruitment and retention of suitable staff, development of long-term financial plans, and dealing with population change. There is a range of guidance available outside of government, but LGV could play a more proactive facilitation role.

## 4.4 Monitoring and reporting on the sector

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LGV conducts various monitoring and reporting activities that assist it to identify councils at high risk of sustainability issues and to inform its work program. These activities include monitoring VAGO and council reports, local media and sector trends, such as through the analysis of community satisfaction survey results.

LGV's monitoring activities have identified councils at high risk of sustainability issues and it has implemented actions to address issues when they have arisen. LGV has prepared a number of submissions and briefings for government who have acted on their recommendations. This has resulted in, for example:

- The appointment of an Inspector of Municipal Administration in March 2012 to conduct an independent assessment of Buloke's financial health in response to its audit qualification in the 2011 VAGO audit report *Local Government: Results of the 2010–11 Audits*. The review identified critical concerns about the council's future financial health that were primarily driven by inadequate analysis and reporting of current and forecast cash flows by management, which led to inadequate strategies and actions taken by council. An Inspector has been appointed for a further term of up to two years to provide continued oversight of the council's financial operations.
- Assistance to councils, such as Murrindindi, which was the most heavily impacted municipality during the Black Saturday bushfires, including conducting a review of the council's financial position, asset management and sustainability.

Until 2010, LGV conducted sector-wide reporting, which was published in the annual *Local Government in Victoria Report*. This report included analysis of the financial sustainability of councils as a whole and by five council groupings using information from councils' annual reports. It outlined average performance for all councils across LGV's 11 key performance indicators and incorporated analysis from VAGO's financial indicators. This report has not been published since 2010. However, LGV advised that it plans to release a broader *Local Government in Victoria Report* in December 2013, which will include reporting against a new set of performance indicators, as discussed below.

An appropriate performance monitoring framework is important for monitoring the performance and sustainability of councils. LGV is currently developing a local government performance reporting framework with the sector, which is scheduled for a trial by July 2013 and mandatory use in July 2014. A directions paper has been developed by LGV, and technical working groups have recently been established to develop performance indicators across three areas—service performance, financial performance and sustainability. The sustainability indicators are intended to assist councils to monitor, evaluate and report on sustainability and measure their capacity to meet current and future service, infrastructure and other obligations as they fall due. A sector performance report will be issued by DPCD. LGV aims to align this project with the recommendations from VAGO's 2012 *Performance Reporting by Local Government* audit.

The development of this framework provides an opportunity for LGV to more closely monitor council sustainability and respond appropriately to support councils on a timely basis.

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## Recommendations

The Department of Planning and Community Development should:

4. review and update its asset management guidance
  5. consider making the development of a long-term financial plan mandatory and provide support and guidance in the development of these
  6. routinely review the guidance and support it provides so that it is aligned with areas of highest need and addresses gaps in councils' capability and capacity
  7. expedite implementation of the planned local government performance reporting framework and make sure it includes appropriate sustainability indicators.
-

## Appendix A.

# Financial sustainability indicators for councils

**Figure A1**  
**Financial sustainability indicators for councils**

Indicator	Formula	Description
Underlying result (per cent)	Adjusted net surplus/ total underlying revenue	<p>A positive result indicates a surplus. The larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term.</p> <p>Underlying revenue does not take into account non-cash developer contributions and other one-off (non-recurring) adjustments.</p>
Liquidity	Current assets/ current liabilities	<p>Measures the ability to pay existing liabilities in the next 12 months.</p> <p>A ratio higher than 1:1 means there is more cash and liquid assets than short-term liabilities.</p>
Self-financing (per cent)	Net operating cash flows/ underlying revenue	<p>Measures the ability to replace assets using cash generated by the entity's operations.</p> <p>The higher the percentage, the more effectively this can be done.</p>
Indebtedness (per cent)	Non-current liabilities/ own-sourced revenue	<p>Comparison of non-current liabilities (mainly comprised of borrowings) to own-sourced revenue. The higher the percentage, the less able to cover non-current liabilities from the revenues the entity generates itself.</p> <p>Own-sourced revenue is used (rather than total revenue) because it does not include capital grants, which are usually tied to specific projects.</p>

**Figure A1**  
**Financial sustainability indicators for councils – *continued***

Indicator	Formula	Description
Capital replacement	Capital expenditure/ depreciation	<p>Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciation rate.</p> <p>This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.</p>
Renewal gap	Renewal and upgrade expenditure/depreciation	<p>Comparison of the rate of spending on existing assets through renewing, restoring, and replacing existing assets with depreciation. Ratios higher than 1:1 indicate that spending on existing assets is greater than the depreciation rate.</p> <p>Similar to the investment gap, this is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.</p>

Source: Victorian Auditor-General's Office.

**Figure A2**  
**Risk assessment criteria for financial sustainability indicators**

<b>Risk</b>	<b>Underlying result</b>	<b>Liquidity</b>	<b>Indebtedness</b>	<b>Self-financing</b>	<b>Capital replacement</b>	<b>Renewal gap</b>
<b>High</b>	<b>Negative 10% or less</b>  Insufficient revenue is being generated to fund operations and asset renewal.	<b>Equal to or less than 1.0</b>  Insufficient current assets to cover liabilities.	<b>More than 60%</b>  Potentially long-term concern over ability to repay debt levels from own-source revenue.	<b>Less than 10%</b>  Insufficient cash from operations to fund new assets and asset renewal.	<b>Equal to or less than 1.0</b>  Spending on capital works has not kept pace with consumption of assets.	<b>Equal to or less than 0.5</b>  Spending on existing assets has not kept pace with consumption of these assets.
<b>Medium</b>	<b>Negative 10% to zero</b>  A risk of long-term run-down to cash reserves and inability to fund asset renewals.	<b>1.0–1.5</b>  Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	<b>40–60%</b>  Some concern over the ability to repay debt from own-source revenue.	<b>10–20%</b>  May not be generating sufficient cash from operations to fund new assets.	<b>1.0–1.5</b>  May indicate spending on asset renewal is insufficient.	<b>0.5–1.0</b>  May indicate insufficient spending on renewal of existing assets.
<b>Low</b>	<b>More than zero</b>  Generating surpluses consistently.	<b>More than 1.5</b>  No immediate issues with repaying short-term liabilities as they fall due.	<b>40% or less</b>  No concern over the ability to repay debt from own-source revenue.	<b>20% or more</b>  Generating enough cash from operations to fund assets.	<b>More than 1.5</b>  Low risk of insufficient spending on asset renewal.	<b>More than 1.0</b>  Low risk of insufficient spending on asset base.

Source: Victorian Auditor-General's Office.

The overall financial sustainability risk assessment is calculated using the ratings determined for each indicator as shown in Figure A3.

**Figure A3**  
**Overall financial sustainability risk assessment**

●	High risk of short-term and immediate sustainability concerns indicated by either: <ul style="list-style-type: none"><li>● <b>red</b> underlying result indicator or</li><li>● <b>red</b> liquidity indicator.</li></ul>
●	Medium risk of longer-term sustainability concerns indicated by either: <ul style="list-style-type: none"><li>● <b>red</b> self-financing indicator or</li><li>● <b>red</b> indebtedness indicator or</li><li>● <b>red</b> capital replacement indicator or</li><li>● <b>red</b> renewal gap indicator.</li></ul>
●	Low risk of financial sustainability concerns—there are no high-risk indicators.

Source: Victorian Auditor-General's Office.

# Appendix B.

## *Audit Act 1994* section 16— submissions and comments

### Introduction

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In accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Planning and Community Development and to the following five councils, with a request for submissions or comments:

- Buloke Shire Council
- Golden Plains Shire Council
- Strathbogie Shire Council
- Towong Shire Council
- Yarriambiack Shire Council.

The submission and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

The Department of Planning and Community Development .....	42
Towong Shire Council .....	45
Further audit comment:	
Acting Auditor-General's response to Towong Shire Council .....	52



**RESPONSE provided by the Acting Secretary, Department of Planning and Community Development**



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Ref CSEC003816  
File 13/001953



Dr Peter Frost  
Acting Auditor-General  
Victorian Auditor-General's Office  
Level 24, 35 Collins Street  
MELBOURNE VIC 3000

Dear Dr Frost

**AUDIT ACT 1994, S16(3): PROPOSED AUDIT REPORT – ORGANISATIONAL SUSTAINABILITY OF SMALL COUNCILS**

Thank you for the opportunity to provide comment on the proposed audit report *Organisational Sustainability of Small Councils*.

I accept the report as a fair representation of the sustainability challenges facing small councils and accept your recommendations numbered 4 to 7 in respect to the Department of Planning and Community Development.

It is not my intention to comment on the specific findings in respect of individual councils but I expect those councils will also accept the opportunity for comment afforded them by Section 16(3)(b) of the *Audit Act 1994*.

I am pleased with the degree of symmetry between your recommended actions for the Department and the current and proposed priorities identified for delivery by Local Government Victoria and offer the following additional comments:

**VAGO Recommendation 4: review and update its asset management guidance**

The need to update this guidance is accepted, as is the impact of asset management practices on the sustainability of an organisation.

There have been a number of support mechanisms made available to small (and large) councils in the pursuit of improved asset management practices and ultimately organisational sustainability and this guideline, issued in 2004, is one such tool.

The review and update of these guidelines must also consider broader information now available:

- Results of the Annual Local Government Victoria 'Asset Management Performance Measurement Survey' which was commenced in 2003;
- Progression of the Municipal Association of Victoria STEP Asset Management Program;



**RESPONSE provided by the Acting Secretary, Department of Planning and Community Development – continued**

- Results of the Regional Asset Management Project and the Victorian Local Government Sustainability Project; and
- The National Assessment Framework for Asset Management and Financial Planning developed by the Australian Centre for Excellence in Local Government (ACELG).

**VAGO Recommendation 5:** *consider making the development of a long term financial plan mandatory and provide support and guidance in the development of these*

The importance of a long term financial plan that is aligned with shorter term plans is acknowledged. The *Local Government Act 1989* requires the completion of a four year Strategic Resource Plan by a council however there is evidence of the benefits and use of longer term planning, provided it is both realistic and subject to periodic review.

Decisions on whether a ten year plan or similar long term planning should be mandatory (legislated) or voluntary will be given thorough consideration.

**VAGO Recommendation 6:** *routinely review the guidance and support it provides so that it is aligned with areas of highest need and addresses gaps in councils' capability and capacity*

Two planning forums conducted by Local Government Victoria each year are informed by the annual Auditor-General's report on local government audits, specific performance audits completed by VAGO and the Asset Management Performance Measures Survey. From 2013/14 the National Assessment Framework for Asset Management and Financial Planning will also provide valuable input.

In 2011/12 Local Government Victoria delivered the Local Government Reform Fund Program 'Aligning Strategy, Capacity and Sustainable Outcomes' which is detailed in your report at page 35. The lessons learned from these programs have been useful in further program development as well as the consideration of any future legislative change.

The findings from these projects have been presented to the Local Government Reform Strategy Reference Group to assist in planning alternate models of capacity building.

**VAGO Recommendation 7:** *expedite implementation of the planned local government performance reporting framework and make sure it includes appropriate sustainability indicators.*

The development of a Performance Reporting Framework has been a key priority during 2012/13 with a pilot to be launched for the 2013/14 financial year. This has been the subject of extensive consultation with the sector, professional bodies and academics and is the guiding framework for the development of sustainability, service and financial indicators.

The recently released 'Draft Local Government Performance Reporting Framework & Indicators – working paper' proposes three key reporting streams: service performance, financial performance and sustainability.

Local Government Victoria has invited councils to nominate for participation in the 2013/14 pilot of this framework.

I would also take this opportunity to provide general comments on the report:

**RESPONSE provided by the Acting Secretary, Department of Planning and Community Development – continued**

***Financial sustainability***

The audit has reported that on average, government grants have increased significantly as a percentage of total revenue. It is worthwhile noting that decisions of the Victoria Grants Commission have increased allocations to small councils with increased weighting assigned to factors such as population dispersion and remoteness which have generally favoured regional and rural councils.

***Sustainability issues, challenges and strategies***

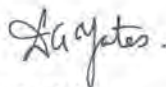
The report identifies the importance of integrating asset management planning with long term financial planning.

The development of these documents is dependent on the level and quality of service planning and delivery, which in turn is a function of the quality of community consultation around levels of service. Local Government Victoria is contributing to the ACELG and Institute of Public Works Engineering Australia draft practice note 'Levels of service and community consultation'. This information will be made available to all councils.

I am confident of the contribution that the Performance Reporting Framework will make to the identification of emerging sustainability problems. In addition, the community will have access to concise and comparable data sets to better understand and assess the performance of their local council.

I look forward to the successful implementation of these important initiatives over the coming 12-18 months.

Yours sincerely



**Dean Yates  
ACTING SECRETARY**

31/5/13

**RESPONSE provided by the Chief Executive Officer, Towong Shire Council**

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32 Towong Street (PO Box 55) Tallangatta VIC 3700  
info@towong.vic.gov.au www.towong.vic.gov.au ABN 45718604860



Reference: 07/05/0007

31 May 2013

Mr Peter Frost  
Acting Auditor-General  
VAGO  
Level 24, 35 Collins Street  
Melbourne VIC 3000



Dear Mr Frost,

**Performance Audit – Organisational sustainability of small councils**

Thank you for the opportunity to provide comments in relation to the Proposed Audit Report – Organisational sustainability of small councils. Thank you also for the correspondence of 28 May 2013, which responded to our meeting of 16 May 2013 and our correspondence of 17 May 2012 (Appendix A).

Our correspondence of 17 May 2013 (Appendix A) raises a number of issues in relation to the provisional Audit Report. As our correspondence is appended to this document we do not intend to reproduce those issues within the body of this document. We do however believe that the issues raised are still relevant to the Proposed Audit Report.

Towong Shire Council has relied on previous VAGO reports to drive significant reform within our organisation and we are disappointed by the quality and content of this Proposed Audit Report. Having reviewed the report we believe it remains well below the standard we have come to expect from your office.

We are also disheartened by the response of senior VAGO staff to our input. We have found their approach to be very defensive and the correspondence of 28 May 2013 is a good example of this. It is of concern to us that at our 16 May 2013 meeting we were told that VAGO had the last right of reply to whatever the participant organisations said. Given the manner in which this was articulated we were left feeling that that any criticism of VAGO was a pointless exercise as it would result in that criticism coming back at us.

I have had the opportunity to discuss these matters with other CEOs involved in the audit and unfortunately there seems to be a shared common view. It appears that there has been a tendency for VAGO to rely on disengaged or non-existent feedback as tacit endorsement. When in fact other organisations simply feel it is a futile exercise to raise any concerns. I would like to suggest that you contact the CEOs of the participating Councils to understand more about their audit experience. While it may seem reasonable to rest responsibility for not raising concerns with the respective CEOs we believe that once you discuss the extent of the issue with them you will gain greater clarity.

Regardless of these matters, we would like to provide input that may assist with improving the quality of the report so that it can be of genuine benefit to the sector. We are unable to commit the resources to complete the laborious review that we believe the report requires and based on the response to previous feedback we are also not certain of the merits of doing so. That said, we hope the following general feedback will be of assistance.

innovation : technology : sustainability

**RESPONSE provided by the Chief Executive Officer, Towong Shire Council –  
continued**

The report, we believe, shows Towong Shire Council in a positive light. As a result we feel it is necessary to state that our criticism of the report stems from a genuine desire to see the report and its recommendations have meaningful impact across the sector and is not from a defensive position.

It is important to note that we have responded to the Audit Specification, Post Planning Briefing and Provisional Report and more importantly believe we have had ample opportunity to provide evidence to VAGO during the course of the audit and that this has successfully occurred.

In terms of the recommendations, four of the seven recommendations relate specifically to the Department of Planning and Community Development (Local Government Victoria). We believe that Department has very strong insight into the sector and will chose to implement recommendations if they are considered to be appropriate and effective. A further recommendation specifically relates to Yarriambiack Shire Council. This has no bearing on Towong Shire Council and as a result we have no comment on that recommendation.

The remaining two recommendations relate more broadly to the five participant Councils. We believe that both of these recommendations lack the maturity that we would expect from an experienced auditor and are not supported by evidence. *Recommendation 1* is highly non-specific and this was self-evident when we discussed it at our meeting with VAGO staff on 16 May 2013. *Recommendation 3* whilst based on a policy position is not supported by evidence. Our recent experience with a 'Best Value' review (which included a number of Councils) demonstrated that this is not an effective way of moving an organisation towards organisational sustainability. This information was provided to the audit team.

We believe that the report should be revised so that the following issues are addressed, in accordance with the audit initiation briefing and audit specification:

- The report does not identify:
  - best practice that can assist in driving improvements across the sector.
  - documentation, systems nor processes that are likely to yield improved outcomes.
  - mechanisms that could be used to communicate best practice, that improves sustainability, between Councils.
  - pilot projects that could be supported to advance the sector.
- The potential effectiveness of the recommendations is not supported by an accurate evidence-based approach, even where evidence is readily available.
- There are large sections of the report that raise concerns that do not result in any recommendations e.g. recruitment and retention of qualified staff.
- Where evidence is provided it appears to be used to support recommendations rather than inform them and the primary financial data included has been relied on without interpretation.
- The report shows a fundamental lack of understanding of the significant structural and operational circumstances that prevail within any small Council.

While we appreciate that VAGO have in excess of 25 audits to deliver each year we are left wondering if quality is being sacrificed for expedience, if there is a lack of experience within the audit team or if there is a lack of commitment to delivering value from the report.

We believe that VAGO has not succeeded in translating evidence into mature evidence-based recommendations and should seek to understand why that has occurred and try to improve on the outcomes of future similar audits.

Regardless of the reason, it is disappointing that a significant opportunity to advance the sector has not been realised. While the cost of the report has not yet been provided it is important to note that a one

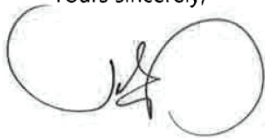
**RESPONSE provided by the Chief Executive Officer, Towong Shire Council –  
continued**

percent rate increase for Towong Shire Council generates approximately \$50,000 revenue and this would be typical of any of the five Councils involved. It is imperative within our organisation that any expenditure yields a quality outcome. We would hope that this is also the position of VAGO when conducting performance audits.

Thank you for the opportunity to provide comments in relation to the Proposed Audit Report.

Should any further information or clarification be required please do not hesitate to contact me on 02 6071 5100.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Juliana Phelps', enclosed within a large, hand-drawn circular scribble.

**Juliana Phelps**  
Chief Executive Officer

Enc.

**RESPONSE provided by the Chief Executive Officer, Towong Shire Council –  
continued**

Appendix A .

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info@towong.vic.gov.au www.towong.vic.gov.au ABN 45718604860



Reference: 07/05/0007

17 May 2013

Mr Andrew Evans  
Senior Manager, Performance Audit  
Level 24, 35 Collins Street  
Melbourne VIC 3000

Dear Andrew,

**Performance Audit – Organisational sustainability of small councils**

Thank you for meeting with myself and Dave Barry, Director Community and Corporate Services at your offices on Thursday 16 May 2013. Please extend our thanks also to Natalia Southern and Janet Wheeler for meeting with us.

Our understanding is that a performance audit is 'an audit which evaluates whether an organisation or government program is achieving its objectives effectively, and doing so economically and efficiently, and in compliance with all relevant legislation' (VAGO website). We do not believe that this performance audit has achieved this.

As discussed, we are disappointed that the audit and subsequent report do not adopt a robust evidence based approach and as a result:

- no recommendations are made in relation to:
  - best practice that could have assisted in driving improvements across the sector
  - documentation, systems, processes that are likely to yield improved outcomes
  - mechanisms that could be used to communicate best practice, that improve sustainability, between Councils
  - pilot projects that could be supported to advance the sector
  - mechanisms to address the recruitment and retention of qualified staff, despite it being raised as a matter of concern in the report.
- there are only two recommendations that generally relate to the small Councils involved, which does not appear to be a sufficiently mature approach to addressing very real challenges
- the relationship between documentation and outcomes is not supported by evidence
- the capability of the sector to address sustainability challenges is not clear
- the primary financial data included has been relied on without interpretation

Provided below, as requested at our meeting, are our comments in relation to provisional draft report.

Comments in relation to the Audit Summary Section

**Conclusions section**

In this section of the Audit Summary it is stated 'Over the past five years, the reliance of audited councils on government grants has increased substantially'. We believe this interpretation is incorrect.

**RESPONSE provided by the Chief Executive Officer, Towong Shire Council –  
continued**

Over the past five years the level of government grants to councils has increased and as a result the ratio of own source income to grant income has shifted however this does not mean that the audited councils' reliance has increased. The services and infrastructure delivered by council are determined by the funding available (and generally the State or Federal Government funding is tied to pre-determined outcomes). If the increased funding was not available the Councils would not provide increased levels of services and infrastructure. We would 'cut the cloth to fit' the funding available.

We do not believe it is accurate to say that the reliance of audited councils on government grants has increased substantially. A better way of presenting this would be to say 'the level of government grants has increased significantly and the ratio of own source income to grant income has shifted accordingly.'

Within this section of the Audit Summary it also states 'However, the councils generally cannot demonstrate the effectiveness of strategies and actions and whether these are having a material impact on improving their sustainability'. The report should recognise that improving sustainability is not an overnight proposition and the effectiveness of strategies and actions (such as those to increase population and rate base) are medium to long-term propositions and accordingly the effectiveness of the strategies may not be apparent for some time.

We also believe there are extremely good examples of actions taken to improve Towong Shire Council's sustainability including a demand reduction program to reduce wasted expenditure by \$250,000 on an annual recurring basis and development of a solution to GPS track our heavy plant. It is worth noting this in the context of a 1% rate rise generating an \$50,000 additional revenue for Council. These examples could have been highlighted in the report to demonstrate efforts taken to improve efficiency and economy and thereby work towards the attainment of organisational sustainability).

**Findings section**

Within this section there is a comment on the increase in funding from \$33.766m to \$72.434m without providing any context as to why/how this has come about e.g. change to State Funding programs (introduction of the Regional Growth Fund) etc.

In effect the increase in funding was due to a number of factors including:

- The receipt of 50% of the annual VGC grants in advance
- The first year of the Local Government Infrastructure Program
- The first year of Country Roads and Bridges funding program
- The receipt of National Disaster Funding (in relation to Floods within our municipality)

The absence of this context reduces the quality of the report and does not provide sufficient information for readers of the report. In addition, this data is not presented in Net Present Value terms, which is standard practice.

This section also states "While councils have increased the amount of own-source revenue they generated through rates and user charges, it has not been enough to keep pace with their increase in costs". This comment is not substantiated by any evidence.

In this section it also states "Several longer-term financial sustainability indicators are projected to deteriorate for Golden Plains and for Towong, although Towong is projected to improve against all other indicators. In Towong's case this is incorrect. We refer you to Figure 2B (page 10) and the commentary on page 11. The only indicator that is projected to deteriorate is the indebtedness indicator and not 'several' indicators as stated in the Audit Summary.

**Recommendations**

The first of the recommendations is:

'Councils should clearly identify and publically report their sustainability challenges and associated strategies and actions, including how they will monitor, report and evaluate their effectiveness, including relevant and appropriate performance indicators'



**RESPONSE provided by the Chief Executive Officer, Towong Shire Council – continued**

We believe this has already been achieved through the Council Plan and Annual Report as recognised in Section 3.3 of your report.

Section 125(2) of the Local Government Act sets out the requirements for the Council Plan. The Council Plan sets out the Council's Strategic Objectives and the Strategies to achieve the objectives. Also included in the Council Plan are the strategic/performance indicators used to measure success. The Annual Report reports against the objectives and strategies included in the Council Plan.

We suggest that the recommendation be modified along the followings lines:

'Councils strengthen the material in their Council Plan and Annual Report which identifies their sustainability strategies and outline how the strategies and actions address this.'

**Financial Sustainability section**

The first concern we have in relation to this section is that there is no contextual information. Whilst the details for the audited councils are included there is no comparison information in relation to the sector. The reader is unable to ascertain how the audited councils are performing in relation to the rest of the sector. For example, what is the state average or median for the six key financial sustainability indicators and how do the audited councils compare against these?

Towong is shown as having an upward 'trend' in relation to the indebtedness indicator. The Indebtedness ratio is *total liabilities/realisable assets* and in Towong's case our level of mean indebtedness (2007-2011) is 5.66% compared to the average of the Small shire council group of 22.3%.

As a result of having low total liabilities the percentage indicator is highly sensitive and due to a \$1.1m Defined Benefits call being recognised in 2011/12 this indicator increased to 16.8%. This does not constitute a trend and remains far below the average of the Small shire council group.

If VAGO wish to include this representation we request that where it is stated 'Towong's indebtedness indicator is also predicted to deteriorate.' that contextual information is included to explain how this has come about.

There is also no mention of the significant work (commissioned by small councils) by Mr Merv and Mr Rohan Whelan in relation to financial sustainability of rural councils. This work has been key in terms of informing councils and the State and Federal Governments of the factors influencing sustainability and how each of the participating councils are placed regarding sustainability. We believe the commissioning of the work demonstrates that councils are taking it upon themselves to understand and address sustainability issues.

**Sustainability issues, challenges and strategies section**

**Section 3.3.1**

Towong Shire has adopted an approach where our Long Term Financial Plan is a dynamic document that is continuously updated and communicated to all stakeholders. There is no acknowledgement of this approach and the associated benefits. A different approach, such as the one taken at Towong, is not necessarily not 'better practice' particularly when the relevant information is contained within the Plan and the method of presentation and fluid nature of the Plan is fit for purpose for a small council.

**Section 3.3.3**

On page 25 following Figure 3B it states "The necessary rationale for councils adopting shared services is generally not clear". We are surprised by this comment.

The rationale for adopting shared services was clearly articulated during the audit. Perhaps the wording here should be changed to "The rationale for councils adopting shared services has not been provided in the form of a document".

The reality for Towong is that the community expects certain services (e.g. environmental and public health functions) and because we cannot afford a full-time qualified officer (and often can't attract

**RESPONSE provided by the Chief Executive Officer, Towong Shire Council –  
continued**

professional/qualified people to our municipality due to our remoteness) we have two choices: partner with a neighbouring council or not provide the service. Sharing services in this situation is not necessarily about improving the sustainability of council. We believe the report should note that sharing services may be required to provide communities with services (and doing so may not be with a view to achieving sustainability).

**Section 3.3.4**

The material included is directly related to the argument for shared services and the report should make this connection.

**Section 3.3.4**

This section discusses workforce planning in depth and does not form any recommendation nor provide any evidence that that approach currently taken at Towong or the other audited councils is deficient.

**Section 3.3.7**

This section discusses performance indicators and states that "Councils do not have relevant and appropriate performance indicators for specific actions or to measure sustainability beyond financial parameters." We do not understand this comment and would appreciate the inclusion in the report of examples of performance indicators to measure sustainability beyond financial parameters.

**Presentation of report**

**Referencing of data sources**

To enhance the value of the report to readers we suggest that references to documents without footnotes to direct the reader be avoided e.g. 'In January 2012 the Australian Government released a better practice guide'. The better approach would be to reference this document or alternatively provide the correct name of the document/guide in the body of the report to assist the reader.

**Process**

It would be remiss not to comment on the timing of the audit and the unreasonable time frames. Small councils have incredibly limited resources and the conduct of the audit in the first six months of a new Council (the Local Government Elections were in October 2012) when the new Council and staff are formulating the four year Council Plan and Budget was completely unreasonable, putting additional strain on organisations that are already under enormous pressure.

To compound this a key member of staff had five weeks leave during the audit (and there was no real flexibility on the part of VAGO to accommodate this). We completely understand the timeframes to which you are required to adhere but we do not believe there was any understanding of how small councils function nor any appreciation of the impact an audit like this has on a small council particularly if meaningful engagement is desired.

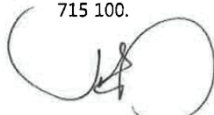
**Housekeeping matters**

We noted there is no page 16 in the report.

We also noted an issue with the numbering of recommendations. On page 30 under 'Recommendations' the final point should be a bullet not number 4 (this will then align the recommendation numbering with the recommendations on page xi – provide the numbering of recommendations on page 36 start with 4 and not 5).

Thank you for the opportunity to provide comments in relation to provisional draft report.

Should any further information or clarification be required please do not hesitate to contact me on (02) 60 715 100.



**Juliana Phelps**  
Chief Executive Officer

## Acting Auditor-General's response to Towong Shire Council

Towong Shire Council has raised three issues in its letter which we emphatically refute: the quality and evidence base of the report, the opportunities that have been provided for engagement and the overall value of performance audits.

### *Quality and evidence base*

We strongly refute any suggestion we did not follow an evidence-based approach. In developing the audit findings, conclusions and recommendations the Auditor-General considered all of the relevant and appropriate evidence provided by the audited councils, including Towong, which related to the audit scope.

Towong's letter attaches its correspondence from 17 May 2013 at Appendix A. We note that we have already provided Towong a detailed acquittal of the issues raised, and advised of a number of changes to the final report acknowledging the further information and context provided. We do not intend to re-state the advice already provided. We reiterate that we believe Towong's comments are largely contextual or opinion rather than evidence based and do not change our findings, conclusions or recommendations.

We further note Towong's comment that the Department of Planning and Community Development (DPCD) has strong insight into the sector and refer to the department's response which states the report is a 'fair representation of the sustainability challenges facing small councils' and it clearly accepts the four relevant recommendations.

### *Engagement*

We believe Towong has been poorly served by the unprofessional prosecution of this audit by Council Officers, which has been conducted in less than good faith.

Towong was provided with the same opportunities to provide evidence, comment and engage with this audit as were all the other small councils subject to this audit. All other councils provided timely submissions on our emerging findings, except Towong, despite it being provided with multiple extensions to provide comment and supporting evidence.

Towong provided no written response to our emerging findings for nearly three months. On 16 May 2013, the senior Council Officer responsible for day-to-day engagement with VAGO advised he had 'stopped engaging with the audit'. The council made no attempt to advise VAGO of this decision to 'disengage' or to escalate this significant issue prior to 16 May 2013.

The Towong May 31 response to this audit asserts that the other CEOs involved in the audit share similar views, and suggests that we contact the CEOs of those councils to understand more about their experience. We did. We have spoken directly to each of the four CEOs at the other audited councils who do not share Towong's view, notwithstanding that Towong had circulated its response to these councils.

### Value

Towong's letter appears to question whether the expenditure on this audit has yielded a quality outcome. We note that VAGO conducts audits of some 550 entities in the Victorian Public Sector, as well as the local government sector, which have a combined income of around \$71.1 billion. The total cost of VAGO operations represents 0.05 per cent of the income of the entities we audit. More importantly, the Auditor-General's audits provide assurance to Parliament on the accountability and performance of the Victorian Public Sector and make recommendations for further improvement.

This audit includes three recommendations directed at councils relating to sustainability strategies, long-term financial planning and service planning and delivery. We note Towong's comments about 'best value', but remind it that it is a mandatory requirement of the *Local Government Act 1989* for councils to provide services in accordance with Best Value Principles.

This audit identifies better practices which could assist in driving improvements across the sector such as improved long-term financial planning. Towong has not indicated clearly in its response to the audit whether it intends to adopt these recommendations going forward. We suggest that if Towong were to not act on the recommendations this would represent a seriously missed opportunity to improve its sustainability, performance and value to its community.

In our response to Towong's correspondence of 17 May 2013—Appendix A of Towong's letter of 31 May—we indicated that we would like to meet with the council as we have significant concerns with the prosecution of this audit. Towong's Mayor confirmed with us on 5 June 2013 council's invitation to meet with it. We take this proposal to meet seriously and suggest that in any future VAGO audits Towong fully appraises itself of audit methodology and standards, the nature of audits and Towong's responsibilities and obligations under both the *Audit Act 1994* and the *Local Government Act 1989*.

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# Auditor-General's reports

## Reports tabled during 2012–13

Report title	Date tabled
Carer Support Programs (2012–13:1)	August 2012
Investment Attraction (2012–13:2)	August 2012
Fare Evasion on Public Transport (2012–13:3)	August 2012
Programs for Students with Special Learning Needs (2012–13:4)	August 2012
Energy Efficiency in the Health Sector (2012–13:5)	September 2012
Consumer Participation in the Health System (2012–13:6)	October 2012
Managing Major Projects (2012–13:7)	October 2012
Collections Management in Cultural Agencies (2012–13:8)	October 2012
Effectiveness of Compliance Activities: Departments of Primary Industries and Sustainability and Environment (2012–13:9)	October 2012
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011–12 (2012–13:10)	November 2012
Public Hospitals: Results of the 2011–12 Audits (2012–13:11)	November 2012
Water Entities: Results of the 2011–12 Audits (2012–13:12)	November 2012
Port of Melbourne Channel Deepening Project: Achievement of Objectives (2012–13:13)	November 2012
Portfolio Departments and Associated Entities: Results of the 2011–12 Audits (2012–13:14)	November 2012
Local Government: Results of the 2011–12 Audits (2012–13:15)	November 2012
Prison Capacity Planning (2012–13:16)	November 2012
Student Completion Rates (2012–13:17)	November 2012
Management of the Provincial Victoria Growth Fund (2012–13:18)	December 2012
Learning Technologies in Government Schools (2012–13:19)	December 2012
Addressing Homelessness: Partnerships and Plans (2012–13:20)	February 2013
Implementation of School Infrastructure Programs (2012–13:21)	February 2013
Rating Practices in Local Government (2012–13:22)	February 2013
Management of Unplanned Leave in Emergency Services (2012–13:23)	March 2013
Management of Freshwater Fisheries (2012–13:24)	March 2013

Report title	Date tabled
Managing Traffic Congestion (2012–13:25)	April 2013
Consumer Protection (2012–13:26)	April 2013
Public Asset Valuation (2012–13:27)	April 2013
Planning, Delivery and Benefits Realisation of Major Asset Investment: The Gateway Review Process (2012–13:28)	May 2013
Tertiary Education and Other Entities: Results of the 2012 Audits (2012–13:29)	May 2013
The State of Victoria's Children: Performance Reporting (2012–13:30)	May 2013
Management of Staff Occupational Health and Safety in Schools (2012–13:31)	May 2013
Infection Prevention and Control in Public Hospitals (2012–13:32)	June 2013

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towongshire



2015/16

# ANNUAL REPORT



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## **Towong Shire Council**

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# Introduction

## Welcome

Council is committed to transparent reporting and accountability to the community. This Annual Report provides a summary of Council's operations and performance for 2015/16. It reports Council's progress towards achieving the objectives, measures and priorities set out in the Council Plan 2013-17 as well as how the financial performance for 2015/16.

This report also contains a snapshot of significant events, achievements and changes that occurred throughout the year together with audited Financial Statements and other information as prescribed by the *Local Government Act 1989* and the *Local Government Regulations*.

## About Towong Shire

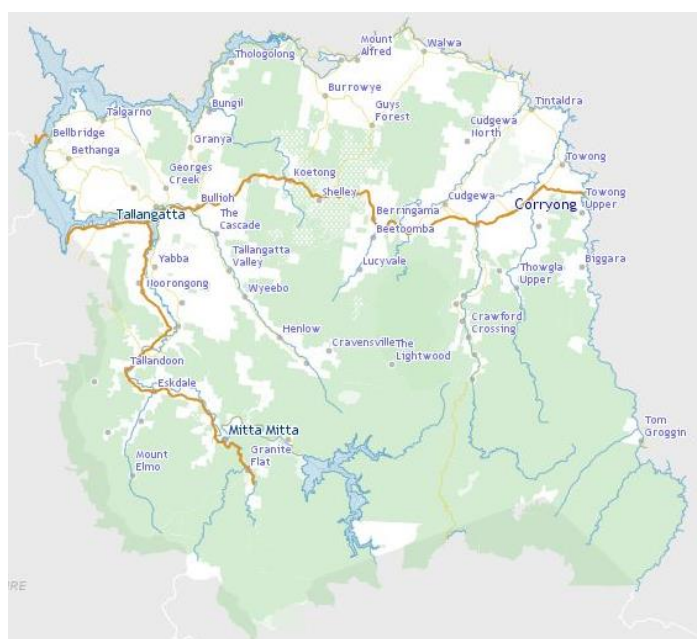
Towong Shire is located in far north-eastern Victoria and possesses some of Australia's most pristine environment. Wilderness areas, lakes, rivers and streams create diverse landscapes that are enjoyed by a residential population of around 6,000 and many visitors across an area of 6,635km<sup>2</sup>.

The economy of the region revolves around a rich agricultural sector, tourism and timber production and processing. Approximately two-thirds of businesses located in the Shire are in the agriculture and forestry industries.

<b>Population</b>	5,896 (2011)	<b>Council roads</b>	825km
<b>Area</b>	6,635km <sup>2</sup>	<b>Arterial roads</b>	483km
<b>Median age</b>	47 years old	<b>Bridges and major culverts</b>	167

### Towns and communities

Bellbridge, Berringama, Bethanga, Bullioh, Burrowye, Corryong, Cudgewa, Dartmouth, Eskdale, Granya, Koetong, Lucyvale, Mitta Mitta, Nariel, Old Tallangatta, Talgarno, Tallangatta, Tallangatta Valley, Tintaldra, Towong, Walwa.



# Introduction

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## About our organisation

### Vision

We will be a World Class small Council and Towong Shire will be the ideal place to live.

### Mission

To provide leadership and service to the Towong Shire community that adds value and enhances social, economic and environmental wellbeing now and in the future.

### Values

Respect: We will listen and consider other perspectives and treat each other with courtesy.

Integrity: We will seek the common good.

Pride: We will always take care in what we do.

Teamwork: We will help others to achieve by being positive, enthusiastic and confident.

## Acknowledgments

Towong Shire Council acknowledges the support of the Commonwealth Government of Australia and the State Government of Victoria.



# The year in review

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## A message from the Mayor and Chief Executive Officer

Welcome to our 2015/16 Annual Report. This is an opportunity to report back to the community on Towong Shire Council's achievements and challenges.

We hope that by reading this Annual Report, our community feels confident and proud of the achievements of their Council.

Towong is like many other smaller Councils in rural Victoria in that its large geographic area and small population presents significant challenges to fund new infrastructure, as well as catering for the renewal of existing community assets.

All of this needs to be done in a way that is responsive to the needs of the community.

Our Shire has a declining population and there are significant geographical distances between our communities which presents challenges in getting the balance right when delivering services in an equitable way.

This year, we were further impacted by the introduction of the Victorian Government's Fair Go Rates System, which came into force from 1 July 2016, and required a lot of pre-planning and a comprehensive review of the Council's operations.

Our Council supports the principles underpinning the Fair Go Rates System, particularly to contain the cost of living for Towong Shire ratepayers.

Our Council has taken the long-term approach of becoming more sustainable by looking for opportunities to grow its population.

Those of us who already live and work in the Shire know about its wonderful attributes so our challenge will be planning and providing for this growth in a way that means Towong does not lose the attributes which make it so wonderful.

However, there are significant benefits in well-planned population growth, including better usage of existing rural infrastructure and costs being spread over a larger ratepayer base.

This is why we are planning for key communities (Tallangatta Tomorrow, Our Bellbridge, Our Valley Our Future, Upper Murray 2030) and building new recreational facilities and multi-purpose centres throughout the Shire, which add to the attractiveness and liveability of our Shire.

We are fully aware that if we don't provide these basic services and infrastructure, people will relocate to larger shires and regional cities where they can access a level of services and infrastructure that meets their needs.

As well as these challenges, we have enjoyed some great highlights, which are detailed in this report.

As a summary, they include continued operational savings and efficiencies, including shared services with neighbouring Councils, as well as the provision of new infrastructure in many towns, which have already become well utilised facilities.

# The year in review

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Towong continues to be known as an environmentally aware Council and we will continue to protect that for future generations.

We were very pleased that an EPA audit conducted of the Corryong landfill identified no major issues and we will continue to apply thorough sustainability principles to all areas of our Council operations.

Towong has this year been successful in being appointed to provide Secretariat Services to Rural Councils Victoria, which again is testament to the excellent reputation of our Council throughout the State.

We continue to encourage our community to be actively involved in their Council and we pride ourselves on the exceptional level of service we offer.

We thank the community for its ongoing support as we continue to diversify and adapt to a changing economic environment.



**Cr David Wortmann**  
Mayor



**Juliana Phelps**  
Chief Executive Officer

# The year in review

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## Highlights of the year

<b>July 2015</b>	Council commenced operating the Corryong Saleyards in June 2016 following the expiration of the long-term lease arrangements. New scales were installed, fees determined and operating practices implemented at the facility.
<b>August 2015</b>	An audit was completed by the Victoria State Emergency Service of Towong Shire's <i>Municipal Emergency Management Plan</i> . This is an important document for Council and emergency management agencies and guides the local approach in a wide range of emergency situations. The Plan was assessed as complying with the guidelines, testament to the large amount of preparatory work that is undertaken in planning for emergencies.
<b>September 2015</b>	Council delivers a rates and property shared service across Towong and Indigo Shires. An annual review of this shared service demonstrated an annual cost of \$12.14 per assessment. This was a saving of \$2.20 per assessment (or an annual saving of \$9,938 for Towong) on forecast costs and demonstrates Council's continued approach to strong financial management and shared service partnerships.
<b>October 2015</b>	Council established MomentumOne Shared Services Pty Ltd with Alpine Shire Council. This initiative continues Council's approach to increasing efficiencies and reducing costs by supporting the delivery of cost effective services in a way which take advantage of innovative technology and economies of scale. MomentumOne provided lifeguards for the seasonal pools in Corryong and Tallangatta over the 2015/16 summer.
<b>November 2015</b>	Concept plans for the Upper Murray 2030 Vision Plan were released for community input. This is a community planning project which has the potential to drive investment into the Upper Murray by identifying projects and their potential to build regional long-term sustainability, prosperity and health. The project was championed by Upper Murray Business Incorporated, in partnership with Upper Murray Health and Community Services, Towong Shire Council and Tumbarumba Shire Council, as well as key members of the local community.
<b>December 2015</b>	Council was successful in securing \$2.6 million for Destination Tallangatta under the Australian Government's National Stronger Regions Fund. Destination Tallangatta is a \$5.3 million project which delivers the remaining priority projects identified in the Tallangatta Tomorrow masterplan. These include traffic management and streetscape beautification works in Towong Street, Lake Hume foreshore improvements, a new foreshore playground, the Tallangatta Holiday Park upgrade and improved pedestrian links between the Rail Trail, main shopping district, residential areas and foreshore.

## The year in review

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<b>January 2016</b>	Council completed the roll-out of Voice Over Internet Protocol (VOIP) across all of its sites. VOIP is a phone service which can result in conversations taking place over the internet. This has been introduced at many Victorian councils and is a reliable service which will save Council approximately \$6000 per annum.
<b>February 2016</b>	In February 2016, the Mayor and Chief Executive Officer met with the Minister for Local Government, the Hon Natalie Hutchins, and the Member for Northern Victoria, Jaclyn Symes. Discussion centred on the work already undertaken by Council to be as efficient, innovative and sustainable as possible. The Mayor confirmed that Council supports the principles underpinning the new Fair Go Rates System, particularly to contain the cost of living for Towong Shire ratepayers, and that it is seeking support to address long-term financial sustainability concerns.
<b>March 2016</b>	Inspirational speaker Paul de Gelder visited Towong Shire and conducted a workshop with local youth to encourage them to improvise, adapt and overcome when faced with adversity. A former Army paratrooper and Navy clearance diver, Mr de Gelder was attacked by a shark in 2009 and lost two limbs. He has since travelled around the world encouraging people to overcome life challenges.
<b>April 2016</b>	With much excitement from the community, the new \$745,000 Wyebooboo Multi-Purpose Centre in the Tallangatta Valley was completed in time for the start of the football and netball season. The new space features a kitchen, dining area, improved access, a first aid room, change rooms and storage space for community groups. Council's contribution was buoyed by community and Victoria Government funding.
<b>May 2016</b>	The Essential Services Commission (ESC) granted approval for a higher rate cap (6.34%) after Council demonstrated that additional revenue was critical for the delivery of essential community services and infrastructure. The ESC confirmed that the higher rate cap was consistent with Towong's well-developed long-term financial plan to deliver sustainable outcomes in services and critical infrastructure in the long-term interests of the community. In recognition of the need to minimise the financial impact on ratepayers, Council adopted a 3.5% rate increase for 2016/17.
<b>June 2016</b>	Tallangatta's new Library, Early Years and Community Centre was completed and use of the library commenced in June 2016. The centre, officially opened in August, is a modern building, designed to meet the community's needs now and into the future. The facility also includes a community activity space, a new maternal and child health office, kindergarten and childcare facilities.

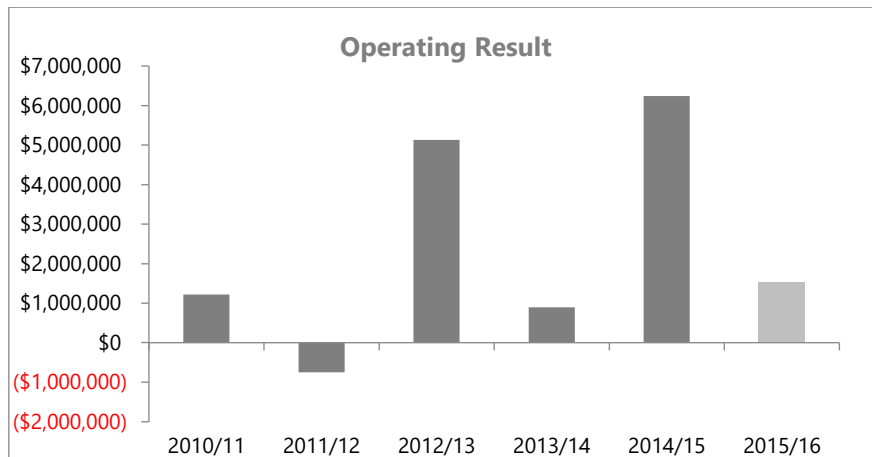


# The year in review

## Financial summary

### Operating result

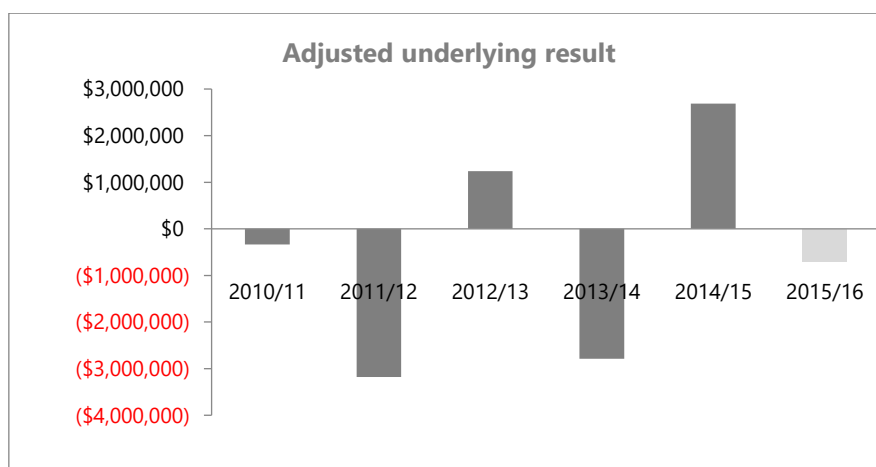
The result shown in the Comprehensive Income Statement for the period was a surplus of \$1,538,000. A comparison of Council's Operating Result from 2010/11 to 2015/16 is provided in the graph below.



The current year's surplus is the difference between Council's income and expenses. Council's income includes all revenue due to the Council, such as rates, fees, grants, private works and interest. Expenses include all costs associated with running Council operations and maintaining assets. It also includes expenditure constructing or redeveloping community buildings located on non-Council owned land, where control of the building returns to the landowner on completion of the project. It does not include expenses of a capital nature, such as upgrading roads, purchasing equipment or developing buildings on Council owned land.

### Adjusted underlying result

The adjusted underlying result is Council's operating result less any capital grants. The adjusted underlying result is a measure of financial sustainability. A comparison of Council's adjusted underlying result from 2010/11 to 2015/16 is provided in the graph below.



# The year in review

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## Grant income

Grant income decreased from the prior year by \$5.2 million. The main contributors to this change were:

- The timing of payments from the Victorian Grant Commission (VGC). In June 2015, Council was pre-paid \$1.8 million from the 2015/16 allocation by the VGC. This meant the 2015/16 grants would be \$1.8 million lower than anticipated;
- The cessation of the State Government funded Country Roads and Bridges program which equated to \$1.0 million; and
- The non-recurrent capital grants were \$1.1 million less than 2014/15 due to funding received for the Tallangatta Integrated Community Centre and black spot funding for a major road upgrade.

## Expenses

Expenses have decreased from the prior year by \$336,000. The major item contributing to this decrease was there were several positions that were not filled and a number of positions that remained vacant longer than expected whilst employees were recruited.

## Capital expenditure

Capital works budgeted for in the 2015/16 Budget included projects that would be completed and capitalised in future years. In some instances Council's commitment to a project is required before government funding applications are made. There are a number of projects that have been committed to subject to the outcomes of government funding that form part of the Destination Tallangatta project and Corryong Airport upgrade. These funding applications were successful in 2015/16 and these projects will be completed over the next two financial years. The multi-year projects are considered as work in progress at 30 June 2016 (refer to Note 21 to the Financial Statements).

	<b>Actual 2015/16</b>	<b>Budget 2015/16</b>	<b>Delivered</b>
	<b># of projects</b>	<b># of projects</b>	<b>%</b>
Capital works – completed 2015/16	20	20	100%
Capital works – postponed pending additional funding	14	14	
Capital works – multi-year projects	1	1	
Capital works – future delivery	2	2	
	<b>37</b>	<b>37</b>	

# The year in review

## Major capital works

<b>Tallangatta's new Library, Early Years and Community Centre</b>	\$2.8 million	The construction of Tallangatta's new Library, Early Years and Community Centre, on Towong Street Tallangatta, was completed in June 2016. The new centre is a modern building that is designed to meet the community's needs now and into the future. The building incorporates best practice environmental design features and includes a library, community activity space, meeting rooms, maternal and child health office, kindergarten and childcare facilities.
<b>Wyeebroo Multi-Purpose Centre</b>	\$745,000	The Wyeebroo Multi-Purpose Centre was constructed in the Tallangatta Valley. Incorporating male and female change rooms, umpire rooms, accessible public amenities, function space and kitchen, the centre was ready for use at the start of the 2016 football and netball season.
<b>Our Bellbridge – masterplan works</b>	\$588,541	Building on the Our Bellbridge works that were completed in 2014/15, this year Council delivered upgrades to the Foreshore Park and landscaping on the Bellbridge foreshore, a new playground at the Roy Williams Reserve, new shelters and seating and upgraded toilet facilities.
<b>Georges Creek Road Stage 3</b>	\$354,380	The construction of Stage 3 of Georges Creek Road was completed.
<b>Colac Colac Caravan Park</b>	\$237,641	The residence at the Colac Colac Caravan Park was upgraded in 2015/16.
<b>Corryong and Tallangatta Resource Recovery Centres</b>	\$195,861	Upgrades were completed at both the Corryong and Tallangatta transfer stations with the assistance of funding from Sustainability Victoria. The improvements included the installation of additional storage, access roads and hardstand areas to improve the separation of recyclables.
<b>Street Lighting upgrade</b>	\$192,777	Streetlights in the Shire's urban areas have been upgraded to LEDs as an energy-saving initiative. This project is anticipated to achieve annual savings of approximately \$43,000 at current electricity prices with an estimated payback of seven years. The upgrade will eliminate the equivalent of more than 100,000 tonnes of CO2 per year.

# The year in review

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## Challenges and future outlook

Like other small Councils across rural Victoria, Towong Shire's large geographic area and small population present significant challenges – to adequately fund the maintenance and renewal of community assets and deliver responsive services that meet the needs of the community. A declining population, vast distances between communities and an economy that largely revolves around climatic conditions (particularly agriculture, forestry and tourism) are further factors which have an impact on our financial capacity.

### Addressing financial sustainability

While our organisation has long recognised the risks to our long-term sustainability, in 2009 Council received the results of the 'Whelan Report' which presented a very low sustainability rating for our organisation. In response we developed a robust long-term financial plan that gave us a clear picture of our financial future. In the medium term, Council is aiming towards a 'break-even' underlying net result (i.e. this means our operating expenditure equals operating income).

We introduced a systematic and aggressive cost reduction program and incorporated these savings into the long-term financial plan. In early 2014, on the basis of:

- Maintaining existing levels of service and the current approach to asset renewal;
- Continuing to implement our cost reduction program;
- Adopting annual rates increases of between 4% and 6%; and
- An assumption that the Financial Assistance Grants would continue to increase at a level of 3% per annum,

our organisation could look forward to a 'break-even' financial result in 2017/18.

The original cost reduction program included:

- Water supply and usage (savings of \$20,000 pa);
- Motor vehicle policy changes (savings of \$130,000 pa);
- Banking services (savings of \$16,000 pa);
- In-house garbage collection services (savings of \$70,000 pa);
- Organisational structure changes (savings of \$250,000 pa);
- Shared services for property and rates (reduced cost of service per property by 15%); and
- Rationalisation of overheads including printing, subscriptions and advertising.

### Financial Assistance Grants indexation freeze

The Federal Government's freeze on the indexation of Financial Assistance Grants to local government significantly impacted Council's already lean financial situation. This decision resulted in a \$658,000 decrease to Council's projected income over the 2014/15, 2015/16 and 2016/17 financial years. To put this into perspective, a 1% increase to Council's rates and municipal charge income generates an additional \$63,000.

To partially offset the loss of income from the funding freeze Council introduced the following measures:

- Reduced the length of the summer swimming pool season (savings of \$6,000 pa);
- Reduced its casual roads maintenance workforce (savings of \$75,000 pa);
- Ceased mobile library services (savings of \$50,000 pa);
- Ceased the funded position for the Towong Alliance partnership (savings of \$23,000 pa); and
- Reduced the opening hours of the Corryong Office/Library (savings of \$3,000 pa).

# The year in review

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## Introduction of Fair Go Rates Policy

Adding further strain to Council's long-term financial outlook was the introduction of the Victorian Government's Fair Go Rates System from 1 July 2016. Whilst Council supports the principles underpinning the Fair Go Rates System, particularly to contain the cost of living for Towong Shire ratepayers, Council recognises that with no change to current funding arrangements, the new system places additional pressure on Council's long-term financial outlook.

Unlike larger councils who can generate income through parking fines, development contributions and levies, councils like Towong Shire rely on income from rates and grants to deliver core services. Based on estimated rate caps, Council will be unable to continue to fund services and maintain and renew infrastructure at 2016 levels, and return to a break even underlying net result.

## Higher rate application

In preparing a draft budget for 2016/17, Council's long term financial modelling was updated to establish the rate increase that would be required to ensure that Council could sustainably deliver services and maintain and renew infrastructure at current levels into the future. The modelling indicated that a rate increase of 6.34% was required to be financially sustainable in accordance with Council's Long Term Financial Plan and the Victorian Auditor General's financial sustainability indicators. A rate increase of this magnitude would be required each year for the next ten years.

As the rate increase required for Council to be financially sustainable was greater than the 2.5% rate cap announced by the Minister, an application was made to the Essential Services Commission (ESC) for a higher rate cap of 6.34%.

The ESC conducted a comprehensive review of Council financial data and analysis. On 31 May 2016, the ESC announced that Council's application for a higher rate cap (6.34%) was approved for the 2016/17 financial year. In the accompanying report, the ESC stated "that the higher cap is consistent with Towong's well developed long-term financial plan to deliver sustainable outcomes in services and critical infrastructure in the long-term interests of its community. We find Towong's application and long-term financial plan to be consistent with the requirements of the Fair Go Rates System."

## Adopted budget 2016/17

As stated previously Council supports the principles underpinning the Victorian Government's Fair Go Rates System, particularly to contain the cost of living for Towong Shire ratepayers. In support of this, the final Budget 2016/17 that was adopted by Council contained a rate increase of 3.5% (and not 6.34% as had been approved). Reductions for a number of services were required to accommodate this lower rate increase:

1. Cease to match the Victorian Government contribution to the three local State Emergency Services units from July 2016 (\$32,340);
2. Youth events budget reduced by \$9,000;
3. Seniors event budget reduced by \$9,000;
4. Funding to the Eskdale pool reduced by \$1,000;
5. Tallangatta and Corryong pool budget reduced by \$10,000;
6. Membership of the Murray Darling Association ceased (saving \$1,500);
7. Participation in the whole-of-government community satisfaction survey ceased (saving \$9,000);
8. Local Government tertiary scholarship ceased (saving \$21,000);
9. Contribution to Murray Arts reduced by \$2,000;

# The year in review

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10. Budget available for annual salary and wage increases capped at 1% or CPI, whichever is the lesser (saving \$87,000);
11. Staff training budget reduced by \$9,000; and
12. Membership of Timber Towns for 2016/17 ceased and review for 2017/18 (saving \$2,500).

In addition to the above changes for 2016/17, Council requested a review of a number of operational areas:

- Swimming pools – consider alternative operating models, including the possibility of a community run model;
- Maternal and child health services – consider opportunities for service delivery efficiencies or for better targeting of services; and
- Corryong and Tallangatta transfer station operations – consider alternative operating hours / models.

Whilst the draft Budget had proposed to cease the contributions to the three local State Emergency Services units from July 2016, as a result of community feedback, Council extended the funding until October to enable the Victorian State Emergency Service to establish alternative funding arrangements (saving \$24,255 instead of \$32,340).

## Ongoing financial sustainability

Council is balancing the capacity of ratepayers to pay increased rates and ensuring that Council is able to provide services and maintain infrastructure in the longer term. The financial modelling indicates that Council requires additional revenue to fund future infrastructure and service delivery needs. Council supports the Fair Go Rates System and believes that ratepayers should not be burdened with increases to the cost of living, particularly where the responsibility lies with State and Commonwealth Governments. We believe that additional revenue should come from other levels of government rather than Towong Shire ratepayers. Alternatively, it may be appropriate for some services to be fully funded or provided by the State Government. To progress this Council formally requested a meeting with the Premier to discuss alternative funding options for Towong Shire.

Unfortunately a meeting with the Premier was not made available and instead the Mayor and Chief Executive Officer met with the Treasurer in August 2016. The Treasurer was presented with a snapshot of Council's financial sustainability challenges, particularly external environmental factors affecting:

- Revenue:
  - Indexation freeze on Financial Assistance Grants;
  - Imposition of the Fair Go Rates Policy; and
  - Cessation of Country Roads and Bridges program.
- Expenditure:
  - Costs imposed on councils;
  - Compliance responsibilities imposed on councils;
  - Significant infrastructure assets managed by rural councils;
  - Delivering services over vast geographic areas; and
  - Contributions to services and infrastructure to facilitate basic service levels for the community (eg. contribution to mobile phone towers, libraries, maternal and child health facilities, kindergartens).

# The year in review

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As a result of this meeting a report detailing a range of administrative and service costs borne by Council was submitted to the Treasurer in late August 2016. These costs included:

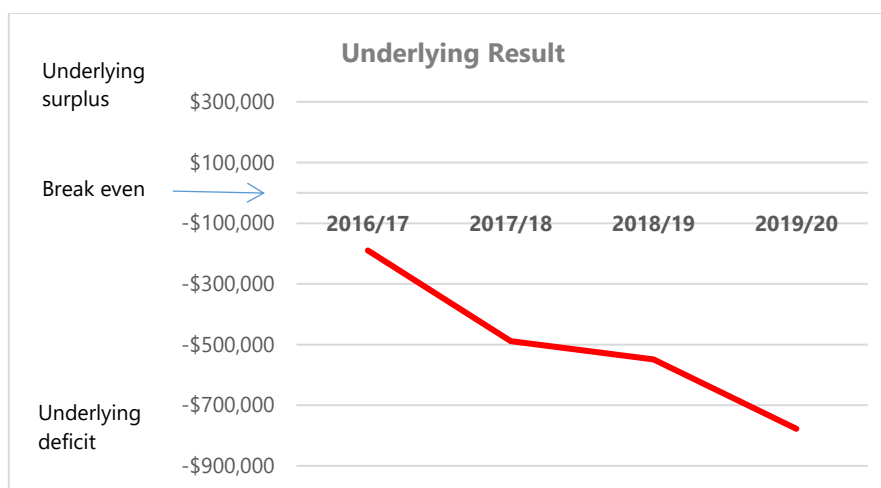
- Community Satisfaction Survey;
- Election cost;
- Electoral Representation Review;
- External Audit;
- Maternal and Child Health service;
- Kindergartens;
- Immunisation;
- School crossing supervisors;
- Library;
- Planning;
- Victorian State Emergency Service;
- Fire Plug Maintenance; and
- General Revaluations.

Council is yet to receive a response to the submission.

## Reduced cash reserves / underlying result

In preparing the final Budget and Strategic Resource Plan for 2016/17, Council adopted a rate increase of 3.5% for 2016/17 and forecast a rate increase of 6.34% for each of the following three years to be financially sustainable and to have sufficient cash reserves to meet future service delivery and asset renewal needs.

Based on a rate cap of 2%, Towong's financial modelling demonstrates that Council would experience increasing underlying deficits over coming years, as displayed in the following chart. Underlying deficits will erode Council's cash reserves and impact on Council's ability to fund Council services and recommended infrastructure renewal in the medium term, with Council's cash reserves exhausted by 2019.



In order to address this deteriorating financial position, Council will need to adopt short term measures to manage its liquidity by:

- Cutting basic services to the community; and
- Reducing maintenance and asset renewal of its extensive infrastructure network (primarily roads and bridges).

# The year in review

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Council's long term response to sustainability is to increase the number of people residing in communities throughout the Towong Shire. This would support better utilisation of existing rural infrastructure and result in costs being spread over a larger ratepayer base. Council has demonstrated its commitment to this long term strategy with its delivery of a number of key strategic projects, including:

- Master planning exercises in key communities (Tallangatta Tomorrow, Our Bellbridge, Our Valley Our Future, Upper Murray 2030);
- Construction of new recreational facilities and multi-purpose centres throughout the Shire (Cudgewa, Mitta Mitta, Tallangatta, Walwa, Wyeefoo);
- Construction of a new Library, Early Years and Community Centre in Tallangatta; and
- Progression of a Domestic Wastewater Management Plan to enable additional residential development in sought after areas of the Shire.

If there is not adequate funding to provide basic services and infrastructure, people will relocate to larger shires and regional cities where they can access a level of services and infrastructure that meets their needs. A reduction in the local population becomes a downward spiral for rural towns, as there are less residents to contribute to the community and to share the cost of local services and infrastructure. This in turn places greater financial pressure on rural councils.

A short term response to addressing Council's deteriorating financial position will compromise a longer term, more sustainable approach that will assist our rural communities to be more vibrant and our Council to be more financially sustainable into the future.

We are actively addressing our concerns by:

1. Continuing to engage with Commonwealth and Victorian Government representatives through meetings, formal submissions and collaborative campaigns;
2. Exploring further opportunities to reduce the cost of doing business, especially through shared service delivery arrangements;
3. Developing a plan to consult with our communities about their expectations for the delivery of Council services; and
4. Partnering with Rural Councils Victoria to identify opportunities to improve the sustainability of rural councils and their communities.



# Our Council

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## Councillors



### **Cr David Wortmann – Mayor**

First elected 29 November 2008

Cr David Wortmann has lived in Granya all his life and is married with two children. He and his wife operate a school bus service. He also runs a beef and sheep farm. Cr Wortmann was elected Mayor in November 2014.



### **Cr Aaron Scales – Deputy Mayor**

First elected 27 October 2012

Cr Aaron Scales was raised on his family's farm at Dartmouth and has settled in the town with his wife Naomi and three children. Cr Scales studied in Law, Accounting and Hospitality/Tourism and is currently the owner and manager of a hotel and also works in a business development role. Cr Scales served as Deputy Mayor since November 2014.



### **Cr Mary Fraser OAM**

First elected 15 March 1997

Cr Mary Fraser OAM has lived in Towong Shire all her life and resides in Tallangatta Valley on a farm with her husband and family. Cr Fraser has served eight terms as Mayor/Shire President with Towong Shire Council and the former Shire of Tallangatta.



### **Cr Debi Gadd**

First elected 29 November 2008

Cr Gadd has lived in the Towong Shire at Mount Alfred for over 30 years where she and her husband operate a mixed beef and sheep property. Cr Gadd's career background is in nursing and management. She is a member of the Australian Institute of Company Directors.



### **Cr Peter Joyce**

First elected 15 March 2003

Cr Joyce has resided in the Shire for over 30 years and with his wife Fairlie, has five children. Cr Joyce has had a varied career as a Stock and Station agent, Police Officer, Greengrocer, operator of a Café/Restaurant and Funeral Director.

All Councillors were elected (or re-elected) to Council at elections held on Saturday 27 October 2012. They were elected for a four-year term and are due to retire in October 2016.

# Our people

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## Management team

The Chief Executive Officer is appointed by Council to oversee the operations of the organisation. The Chief Executive Officer, together with a team of senior managers, ensure that the priorities identified in the Council Plan are achieved and that day-to-day responsibilities of the Council are effectively undertaken.

### **Juliana Phelps**

Chief Executive Officer

Juliana commenced with Council in April 1999 and was appointed Chief Executive Officer in May 2009. Prior to joining Council, Juliana held a senior management position in the manufacturing sector. She has also had experience auditing private and public organisations. Juliana is a Chartered Accountant with a Bachelor of Business Degree in Accounting and Economics. She completed her Masters of Business Administration through Charles Sturt University in 2003 and is also a graduate of the Australian Institute of Company Directors.

### **Jamie Heritage**

Director Technical Services

Jamie commenced with Towong Shire Council in May 2011. Jamie came to Council from Indigo Shire Council where he held the position of Capital Works Manager and later acted as the General Manager for Major Projects and Programs. Prior to this he worked in a number of roles in private industry and Local Government. He has a broad understanding of roads and drainage together with design and development expertise.

### **Jo Shannon**

Director Community and Corporate Services

With over 15 years experience in public sector financial and executive management, Jo commenced as Director Community and Corporate Services in December 2013. Prior to local government, her management experience has been gained in the alpine sector and in the private sector in Melbourne. She has a Bachelor of Business (Accounting) and is a member of CPA Australia.

# Our people

## Organisational structure

### Chief Executive Officer

Juliana Phelps

### Executive Services

Executive and Councillor support  
Customer service

### Technical Services

Director – Jamie Heritage

#### Works

Infrastructure maintenance  
Parks and open spaces

#### Projects

Construction and development

#### Assets

Asset management  
Capital projects  
Emergency Management

#### Regulatory control

Animal control and local laws  
Building services  
Environmental health

#### Environment

Waste management  
Wastewater and water supply projects  
Forest industry support

### Community and Corporate Services

Director – Jo Shannon

#### Community

Kindergartens  
Maternal and child health  
Recreation  
Youth, family and senior programs

#### Finance

Accounting  
Budget  
Rates and property  
Payroll

#### Corporate

Communications  
Risk management and insurance  
Governance  
Human resources

### Planning

Manager – Simon Hollis

Strategic and statutory land-use planning

### Economic and Tourism Development

Manager – Lauren Elvin

Business support  
Agricultural diversity  
Visitor information centres  
Event support

# Our people

## Workforce statistics

Our human capital is of vital importance in delivering positive outcomes for our communities.

A summary of the number of full time equivalent (FTE) council staff, as at 30 June 2016, by key result area, employment type and gender is set out below.

Key result area	Full Time		Part Time		Casual		Total (FTE)
	Female	Male	Female	Male	Female	Male	
Organisational improvement	6.0	4.0	4.0	-	-	-	14.0
Community wellbeing	1.0	-	5.8	-	0.1	-	6.9
Asset management	1.0	27.0	1.2	0.5	0.7	0.4	30.8
Land-use planning	-	2.0	-	-	-	-	2.0
Environmental sustainability	-	-	-	0.7	-	0.2	0.9
Economic and tourism development	1.0	0.3	-	-	-	-	1.3
	<b>9.0</b>	<b>33.3</b>	<b>11.0</b>	<b>1.2</b>	<b>0.8</b>	<b>0.6</b>	<b>55.9</b>

A summary of the number of full time equivalent (FTE) council staff, as at 30 June 2016, by employment classification and gender is set out below.

Employment classification	Female (FTE)	Male (FTE)	Total (FTE)
Band 1	0.8	-	0.8
Band 2	1.3	0.4	1.7
Band 3	-	15.0	15.0
Band 4	4.3	7.7	12.0
Band 5	2.2	4.8	7.0
Band 6	3.0	1.0	4.0
Band 7	1.0	1.0	2.0
Band 8	1.0	1.0	2.0
Band not applicable	7.4	4.0	11.4
	<b>21.0</b>	<b>34.9</b>	<b>55.9</b>

# Our people

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## Equal opportunity employment program

Council has a Discrimination, Workplace and Sexual Harassment, Equal Employment Opportunity and Diversity policy that is reviewed and adopted each year.

Council's policy is that discrimination relating to sex, marital status, parenthood, race, colour, national origin, physical or mental impairment, religious or political affiliation will not be tolerated. Selection of individuals for employment is on the basis of personal merit according to the skills, qualifications and knowledge relevant to the position involved.

The objectives of this policy are:

- Create a working environment which is free from discrimination and harassment and where all members of staff are treated with dignity, courtesy and respect;
- Implement training and awareness raising strategies to ensure that all employees know their rights and responsibilities;
- Provide an effective procedure for complaints based on the principles of natural justice;
- Treat all complaints in a sensitive, fair, timely and confidential manner;
- Guarantee protection from any victimisation or reprisals;
- Encourage the reporting of behaviour which breaches the discrimination and harassment; and
- Promote appropriate standards of conduct at all times.

Actions taken to implement Council's equal employment opportunity policy include:

- Awareness training of equal employment opportunity principles at staff meetings;
- Recruitment processes support the engagement of staff based on merit;
- Flexible working arrangements are supported to enable all employees to balance work and family commitments / responsibilities; and
- Expectations regarding employee conduct discussed as part of employee induction and thereafter on a quarterly basis.

Council's policy reflects our desire to enjoy a workplace free of discrimination where each person has the opportunity to progress to the extent of their abilities.

# Our performance

## Planning and accountability framework

The Planning and Accountability Framework is found in Part 6 of the Act. The Act requires councils to prepare the following planning and reporting documents:

- A Council Plan within six months after each general election or by 30 June, whichever is later;
- A Strategic Resource Plan for a period of at least four years and include this in the Council Plan;
- A Budget for each financial year; and
- An Annual Report in respect of each financial year

The following diagram shows the relationships between the key planning and reporting documents that make up the planning and accountability framework for local government. It also shows that there are opportunities for community and stakeholder input and feedback at each stage of the planning and reporting cycle.



# Our performance

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## Council Plan

The Council Plan 2013-17 includes strategic objectives, strategies for achieving these objectives over the four-year period, strategic indicators and a strategic resource plan.

Our Council Plan presents Council's objectives across six key result areas as follows:

Key result area		Strategic objective
1	Organisational improvement	Embed organisational excellence into our governance and management processes in order to deliver the best possible outcomes for our residents and ratepayers.
2	Community wellbeing	Assist Towong Shire residents in the attainment of a high level of health and safety, resilience and connectedness to their communities.
3	Asset management	Maintain and improve our Shire's infrastructure to meet agreed levels of service.
4	Land-use planning	Develop a strategic and sustainable long-term land-use direction for the Shire based on an integrated approach to the natural and built environment.
5	Environmental sustainability	Integrate sustainable natural resource management into all of our business activities.
6	Economic and tourism development	Expand long-term employment and economic opportunities whilst continuing to maintain and promote our natural environment and the lifestyle our municipality offers.

## Reporting our performance

Council's performance for the 2015/16 year has been reported against the strategic objectives, strategies and indicators set out in our Council Plan 2013-17.

This report measure Council's progress in achieving its objectives as follows:

- Results achieved in relation to the strategic indicators in the Council Plan;
- Progress in relation to the major initiatives identified in the budget;
- Services funded in the budget and the persons or section of the community who are provided those services; and
- Results against the prescribed service performance indicators and measures.

# Our performance

## 1. Organisational improvement

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Our teams have continued to deliver quality services while making excellent progress to implement Council Plan priorities over the 2015/16 year.

Council has continued the successful delivery of the rates and property shared service with Indigo Shire Council for its third year. Towong is also into its second year of the shared service information technology support service with Alpine Shire Council. Council has also formalised a shared service arrangement for the building control and environmental health services with Indigo Shire Council during the year.

There were additional challenges in preparation for the introduction of the State Government's Fair Go Rates System. The Fair Go Rates System came into force on July 1, 2016, as an election promise by the Victorian Government to limit the amount of rates a Council can levy each year via a rate cap.

The rate cap for 2016/17 was set at forecast CPI of 2.5%, and councils could only increase their rates above 2.5% by applying to the Essential Services Commission for a variation to the rate cap. Council decided to apply for a higher rate cap after determining its Budget, Strategic Resource Plan and Long-Term Financial Plan, which outlined the Council's funding requirements for the next 10 years. In May 2016 Council was advised that it was one of six councils that were successful in its application for a higher rate cap for 2016/17.

Council has implemented an Occupational Health and Safety (OHS) Management System plan which incorporates all items identified in AS4801 (Australian Standards for OHS). Items identified in the audits of swimming pools have also been included in the OHS Management System and the key items from these audits are continuing to be addressed.

Late in the financial year, Council was successful in its application to provide secretariat services to Rural Councils Victoria Incorporated for the next three financial years. This will provide an opportunity to take advantage of learnings from Rural Councils Victoria's sustainability projects from across the state and increase the capability of Council staff to deliver better outcomes for the local community.

Highlights	Challenges
<ul style="list-style-type: none"><li>Continued shared service arrangements for building control, environmental health, rates and property and information technology support services;</li><li>Learnings from working through the Fair Go Rates System higher rate cap application process;</li><li>A successful application to provide secretariat services for Rural Councils Victoria over the next three financial years; and</li><li>Rollout of VOIP across the Council offices for telephone communications.</li></ul>	<ul style="list-style-type: none"><li>Planning for a sustainable future in the current tight fiscal environment.</li></ul>



# Our performance

## 1. Organisational improvement

### Performance update

Strategy and Strategic Indicator		Status	Comments
1.1	<p>Redevelop the Council website:</p> <ul style="list-style-type: none"> <li>• <i>Redeveloped website completed and in operation by Dec 2013</i></li> </ul>	Complete	Completed in 2014/15.
1.2	<p>Commercialise Insight 360:</p> <ul style="list-style-type: none"> <li>• <i>Business plan completed by Dec 2013</i></li> <li>• <i>First commercial customer secured by Sept 2014</i></li> </ul>	No further action required	Project scope revised. No further action required.
1.3	<p>Progressively update all Council collateral with our new brand:</p> <ul style="list-style-type: none"> <li>• <i>All Council collateral updated by December 2015</i></li> </ul>	In progress	<p>Internal forms have been updated with new branding.</p> <p>Signage project to be completed in 2016/17.</p>
1.4	<p>Develop a succession plan for key positions within the organisation:</p> <ul style="list-style-type: none"> <li>• <i>Succession plan developed by December 2015</i></li> </ul>	In progress	Scheduled for completion in early 2017.
1.5	<p>Improve communication with residents and ratepayers across the Shire and implement feedback mechanisms to assess our engagement with them:</p> <ul style="list-style-type: none"> <li>• <i>Targeted satisfaction survey(s) conducted each year and achievement of improved survey results over the life of the Council Plan</i></li> </ul>	Ongoing	<p>Broad range of communication tools used during 2015/16 including:</p> <ul style="list-style-type: none"> <li>• Social media;</li> <li>• Community newspapers, newsletters and radio;</li> <li>• Project and service-specific newsletters and flyers; and</li> <li>• Project specific surveys.</li> </ul>
1.6	<p>Continue to improve our Long Term Financial Plan:</p> <ul style="list-style-type: none"> <li>• <i>Plan reviewed and adopted annually</i></li> </ul>	Ongoing	Updated to reflect current financial environment as part of the 2016/17 Budget.

# Our performance

## 1. Organisational improvement

Strategy and Strategic Indicator		Status	Comments
1.7	<p>Implement business improvements in the areas of Occupational Health and Safety (OHS), risk management, swimming pools and landfills as identified by previous internal audits and engage internal auditors to carry out specific risk-based audits in areas (as determined) upon completion of above:</p> <ul style="list-style-type: none"> <li><i>Improvements implemented in the following areas over the life of the Council Plan: OHS, Risk management, Swimming pools, Landfills.</i></li> </ul>	Ongoing	<p>The OHS Action Plan continues to be implemented.</p> <p>The Swimming Pool Action Plan is being implemented with 92% of actions completed as at June 2016.</p> <p>An audit of the Corryong Landfill was conducted by EPA Victoria. No matters of significance were identified.</p>
1.8	<p>Improve service delivery and reduce costs through process improvement and shared services:</p> <ul style="list-style-type: none"> <li><i>Two Council processes reviewed annually and improvement opportunities implemented</i></li> </ul>	Ongoing	<p>Council established MomentumOne Shared Services Pty Ltd with Alpine Shire Council, continuing Council's approach to increasing efficiencies and reducing costs. Council was also successful securing funding to deliver a shared maternal and child health project with Alpine and Indigo Shire Councils.</p>
1.9	<p>Investigate new/additional funding streams with a view to reducing reliance on rate revenue (in conjunction with other small Councils):</p> <ul style="list-style-type: none"> <li><i>Continued participation in 'Whelan' work and continued lobbying of the State and Federal Governments.</i></li> <li><i>Report(s) presented to Council on progress in this area over the life of the Council Plan.</i></li> </ul>	Ongoing	<p>Council was successful in its application to provide secretariat services to Rural Councils Victoria for the next three financial years.</p>
1.10	<p>Deploy IT infrastructure that enables Council to move to virtualised, thin and cloud based solutions:</p> <ul style="list-style-type: none"> <li><i>Virtualised and thin infrastructure delivered during the life of the Council Plan</i></li> </ul>	In progress	<p>Significant savings have been realised from implementation of VOIP technology (approx \$6,000 per annum).</p> <p>Cloud based child care management software has been purchased to provide for streamlined child care processes in Tallangatta.</p>

# Our performance

## 1. Organisational improvement

Strategy and Strategic Indicator		Status	Comments
1.11	<p>Deploy software that leverages improved IT infrastructure with a particular focus on the areas of shared services, record management and business process workflows:</p> <ul style="list-style-type: none"><li>• <i>Solutions delivered that drive business productivity during the life of the Council Plan</i></li></ul>	In progress	<p>Council has been successful in securing funds for a Maternal and Child Health project which included shared software.</p> <p>A purchasing workflow tool was piloted. The evaluation recommends that it be reconsidered when Council implements new accounting software.</p>

## Council services

Service area	Description
Councillors, Chief Executive and Executive Team	This area of governance includes the Mayor, Councillors, Chief Executive Officer and Senior Management Group and associated support which cannot be easily attributed to the direct service provision areas.
Executive Services	This service provides Council with operational organisational support to Council, Chief Executive Officer and the Senior Management Group and acts as the main customer interface with the community. The service also assists with delivering on human resource, communication and governance needs of the Council.
Corporate Services	This service provides financial and corporate based services to internal and external customers, including the management of Council's finances, payment of salaries and wages to employees, procurement and contracting of services, raising and collection of rates and charges, managing Council's records and delivering on Council's occupational health and safety responsibilities. This service also maintains reliable and cost effective communications and computing systems, facilities and infrastructure to support Council staff.

# Our performance

## 1. Organisational improvement

### Service performance indicators

Service indicator	Measure	Result
<b>Governance</b>		
Council decisions made at meetings closed to the public	[Number of Council resolutions made at ordinary or special meetings of Council, or at meetings of a special committee consisting only of Councillors, closed to the public / Number of Council resolutions made at ordinary or special meetings of Council or at meetings of a special committee consisting only of Councillors] x100	3.10%
Satisfaction with community consultation and engagement	[Community satisfaction rating out of 100 with how Council has performed on community consultation and engagement]  <i>This result was obtained from the 2016 Community Satisfaction Survey facilitated by the Department of Environment, Land, Water and Planning.</i>	52
Councillor attendance at council meetings	[The sum of the number of Councillors who attended each ordinary and special Council meeting / (Number of ordinary and special Council meetings) × (Number of Councillors elected at the last Council general election)] x100	92.86%
Cost of governance per councillor	[Direct cost of the governance service / Number of Councillors elected at the last Council general election]	\$36,689
Community satisfaction with council decisions	[Community satisfaction rating out of 100 with how Council has performed in making decisions in the interest of the community]  <i>This result was obtained from the 2016 Community Satisfaction Survey facilitated by the Department of Environment, Land, Water and Planning.</i>	51

# Our performance

## 2. Community wellbeing

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The Community wellbeing key result area draws a diverse range of services together to achieve Council's goal for the wellbeing of Towong Shire communities. From emergency management planning, to early childhood services, to pursuing funding for future community infrastructure projects and many more initiatives and services, our teams had a productive year progressing Council Plan priorities throughout 2015/16.

Council has successfully delivered a number of recreational infrastructure projects to enable the community to become more active, more often. The new \$745,000 Wyeboon Multi-Purpose Centre, incorporating male and female change rooms, umpire rooms, accessible public amenities, function space and kitchen for a range of uses, was ready for use at the start of the 2016 football and netball season.

The first stage of the Corryong Swimming Pool upgrade was completed with the introduction of a new filtration system, with further improvements planned to occur in 2016/17. Council was also successful in securing funding of \$62,137 to upgrade six wickets at the Tallangatta Sports Centre.

Library services commenced in June 2016 in Tallangatta's newly constructed Library, Early Years and Community Centre. The new facility incorporates a library, customer service centre, community activity space, meeting rooms, maternal and child health office, kindergarten and childcare facilities. It is a modern building, designed to meet the community's needs now and into the future. With library services commencing, the hours of operation have also been expanded from 15.5 hours per week to 40 hours per week.

The 'Social Connections' joint initiative with the Tallangatta Health Service and the Walwa Bush Nursing Centre increased the resources available to support volunteer programs with \$30,000 of funding from the Department of Health and Human Services. Work will continue to strengthen partnerships with key stakeholders to deliver improved outcomes for residents' health and wellbeing.

Highlights	Challenges
<ul style="list-style-type: none"> <li>• Completed a review to support extended child care services across the Shire;</li> <li>• Corryong Kindergarten upgrade;</li> <li>• A \$100,000 Innovations grant to better support families across the Shire;</li> <li>• Improved National Quality Framework outcomes for Corryong Kindergarten;</li> <li>• Delivery of successful youth event program Seniors Festival event and community movie night in Corryong and Tallangatta; and</li> <li>• Opening of library services in Tallangatta's newly constructed Library, Early Years and Community Centre.</li> </ul>	<ul style="list-style-type: none"> <li>• Recruiting for a number of key positions; and</li> <li>• Unsuccessful Eskdale and Tallangatta netball court funding applications.</li> </ul>

# Our performance

## 2. Community wellbeing

### Performance update

Strategy and Strategic Indicator		Status	Comments
2.1	Develop a Business Plan for the Corryong Arts Space at Davis Cottage <ul style="list-style-type: none"> <li>• <i>Business plan developed by Dec 2013</i></li> </ul>	Complete	Incorporated into the Upper Murray 2030 Vision Plan.
2.2	Support Community responses to natural disasters <ul style="list-style-type: none"> <li>• <i>Resources developed by June 2014</i></li> </ul>	Complete	Completed in 2013/14.
2.3	Successfully deliver the Tallangatta Multi-sport Project <ul style="list-style-type: none"> <li>• <i>Project successfully completed by June 2014</i></li> </ul>	Complete	Completed in 2013/14.
2.4	Successfully deliver the Cudgewa Multi-purpose Centre Project <ul style="list-style-type: none"> <li>• <i>Project successfully completed by June 2014</i></li> </ul>	Complete	Completed in 2013/14.
2.5	Successfully deliver the Walwa Community Recovery Centre Project <ul style="list-style-type: none"> <li>• <i>Project successfully completed by June 2014</i></li> </ul>	Complete	Completed in 2013/14.
2.6	Successfully deliver the Tallangatta Eco-education and Integrated Services Hub Project <ul style="list-style-type: none"> <li>• <i>Project successfully completed by January 2015</i></li> </ul>	In progress	Library services commenced in June 2016 in Tallangatta's newly constructed Library, Early Years and Community Centre.
2.7	Complete the Tallangatta Caravan Park Planning Study and implement the adopted recommendations from the plan <ul style="list-style-type: none"> <li>• <i>Planning Study completed by Sept 2013</i></li> <li>• <i>Adopted recommendations from the Planning Study implemented over the life of the Council Plan</i></li> </ul>	In progress	Planning Study completed. Recommendations have been incorporated into the National Stronger Regions Funded 'Destination Tallangatta' project and will be delivered over the next two years.
2.8	Seek funding for the Corryong Tennis Court project <ul style="list-style-type: none"> <li>• <i>Funding application submitted by Dec 2014</i></li> </ul>	Complete	Completed in 2014/15.

# Our performance

## 2. Community wellbeing

Strategy and Strategic Indicator		Status	Comments
2.9	<p>Conduct a review of public pools with a view to lowering operating costs and increasing safety and participation</p> <ul style="list-style-type: none"> <li>• <i>Review completed and presented to Council by June 2015</i></li> </ul>	In progress	A number of initiatives to lower costs and improve safety were implemented in the 2015/16 season. The major change was the introduction of a labour hire service through MomentumOne Shared Services Pty Ltd, saving Council 28% on annual operating costs.
2.10	<p>Successfully deliver the Magorra Park Multi-purpose Centre Project</p> <ul style="list-style-type: none"> <li>• <i>Project successfully completed by Dec 2015</i></li> </ul>	Complete	Completed in 2014/15.
2.11	<p>Seek funding for the Corryong Aquatic Training Centre Project</p> <ul style="list-style-type: none"> <li>• <i>Funding application submitted by Dec 2014</i></li> </ul>	Complete	<p>Funding of \$200,000 confirmed. Application for further funding was unsuccessful.</p> <p>This project will now proceed with the confirmed funding available.</p>
2.12	<p>Auspice and support the successful delivery of the Mitta Valley 'Our Valley, Our Future'</p> <ul style="list-style-type: none"> <li>• <i>Project successfully completed by Dec 2015</i></li> </ul>	Complete	Final report and acquittal have been submitted to the Gardiner Foundation.
2.13	<p>Auspice and support the successful delivery of the Upper Murray 2030 Vision Plan</p> <ul style="list-style-type: none"> <li>• <i>Project successfully completed by Dec 2014 and commitment by Council to pursue key priority(s) from the Plan</i></li> </ul>	In progress	Final Upper Murray 2030 Vision Plans have been received and will be reviewed by the Steering Group in late 2016 prior to presenting them to Council.
2.14	<p>Continue to pursue extended childcare services across the Shire</p> <ul style="list-style-type: none"> <li>• <i>Extended childcare services delivered during the life of the Council Plan</i></li> </ul>	Ongoing	Final planning well advanced to relocate the Tallangatta Kindergarten and introduce long day care to Tallangatta's new Library, Early Years and Community Centre.

# Our performance

## 2. Community wellbeing

Strategy and Strategic Indicator		Status	Comments
2.15	<p>Continue to implement the key priorities from 'Tallangatta Tomorrow' including residential development</p> <ul style="list-style-type: none"> <li>• <i>Tallangatta Multi-sport Project delivered by June 2014</i></li> <li>• <i>Caravan Park Planning Study implemented by Dec 2014</i></li> <li>• <i>Integrated Community Hub delivered by Jan 2015</i></li> <li>• <i>Adopted recommendations from the Report to Council on Horse Paddocks by June 2015</i></li> </ul>	Ongoing	<p>Refer to strategies 2.3, 2.6 and 2.7 above.</p> <p>Recommendations have been incorporated into the National Stronger Regions Funded 'Destination Tallangatta' project and will be delivered over the next two years.</p>
2.16	<p>Seek funding for the delivery of key priority(s) from the 'Our Bellbridge' project</p> <ul style="list-style-type: none"> <li>• <i>Funding applications submitted for at least one project by Dec 2014</i></li> </ul>	Complete	Works completed in March 2016.
2.17	<p>Develop and implement a youth activities program</p> <ul style="list-style-type: none"> <li>• <i>Program presented to Council by Dec 2013</i></li> <li>• <i>Implementation over the life of the Council Plan</i></li> </ul>	Ongoing	Youth Plan currently being implemented in partnership with local schools, police and health agencies.
2.18	<p>Facilitate an annual Seniors Week activity</p> <ul style="list-style-type: none"> <li>• <i>Annual activity held</i></li> </ul>	Ongoing	Seniors event with Athol Guy held in Wodonga in October 2015.
2.19	<p>Host an annual Disability Day activity</p> <ul style="list-style-type: none"> <li>• <i>Annual activity held</i></li> </ul>	Ongoing	Recruitment undertaken for Access and Inclusion Officer with appointment made in July 2016.
2.20	<p>Continue to refine Council's Emergency Management Plan, including the identification and management of Neighbourhood Safer Places</p> <ul style="list-style-type: none"> <li>• <i>Plan reviewed and adopted annually</i></li> <li>• <i>Annual identification of NSPs (CFA approval process)</i></li> </ul>	Ongoing	An audit was completed by the Victoria State Emergency Service of Towong Shire's Municipal Emergency Management Plan. The Plan was assessed as complying with the guidelines, testament to the large amount of preparatory work that is undertaken in planning for emergencies.



# Our performance

## 2. Community wellbeing

Strategy and Strategic Indicator		Status	Comments
2.21	Actively participate in the Towong Alliance with the three Shire based Health Services <ul style="list-style-type: none"> <li>• <i>Ongoing participation in the Alliance</i></li> </ul>	Ongoing	The joint initiative with the Tallangatta Health Service and the Walwa Bush Nursing Centre to deliver the government funded 'Social Connections' project was finalised in May 2016.
2.22	Continue the delivery of library services including service provision to rural areas <ul style="list-style-type: none"> <li>• <i>Library services delivered to a service level determined by Council</i></li> </ul>	Ongoing	Static libraries in Corryong and Tallangatta continued, with Tallangatta's operating hours expanded from 15.5 hour to 40 hours.  Meetings conducted in the Mitta and Tallangatta Valleys and Walwa to get a better understanding of library options for these communities.

### Council services

Service area	Description
Community services	This service provides family oriented support services including kindergartens, maternal and child health, immunisations and youth services. It also supports Council's commitment to improved access for all residents, delivers an annual Seniors event and is exploring opportunities to support arts and culture throughout the Shire.
Library services	This service provides public library services at two locations with a customer focus that caters for the cultural, educational and recreational needs of residents.
Community facilities	This service identifies opportunities for Council or community groups to access funding to better meet community needs and delivers on key Council funding applications.
Community health and wellbeing	This service actively drives community health initiatives through the Towong Alliance partnership with the health services and the Towong Healthy Communities Plan 2013 - 2017.
Swimming pools	This service provides two outdoor seasonal swimming pools that operate from November to March each year.

# Our performance

## 2. Community wellbeing

### Service performance indicators

Service indicator	Measure	Result
<b>Aquatic facilities</b>		
Health inspections of aquatic facilities	[Number of authorised officer inspections of Council aquatic facilities / Number of Council aquatic facilities]	1
Reportable safety incidents at aquatic facilities	Total number of WorkSafe reportable aquatic facility safety incidents	0
Cost of outdoor aquatic facilities per visit	[Direct cost of outdoor aquatic facilities less income received / Number of visits to outdoor aquatic facilities]	\$9.58
Number of visits to aquatic facilities per head of municipal population	[Number of visits to aquatic facilities / Municipal population]	2.27
<b>Libraries</b>		
Number of times a library resource is borrowed	[Number of library collection item loans / Number of library collection items]	1.82
Proportion of library resources less than 5 years old	[Number of library collection items purchased in the last 5 years / Number of library collection items] x100	33.27%
Cost of library service per visit	[Direct cost of the library service / Number of visits]	\$7.12
Active library members in municipality	[Number of active library members / Municipal population] x100	9.25%
<b>Maternal and child health</b>		
Participation in first MCH home visit	[Number of first MCH home visits / Number of birth notifications received] x100	92.73%
Infant enrolments in the MCH service	[Number of infants enrolled in the MCH service (from birth notifications received) / Number of birth notifications received] x100	92.73%
Cost of the MCH service	[Cost of the MCH service / Hours worked by MCH nurses]	\$64.60
Participation in the MCH service	[Number of children who attend the MCH service at least once (in the year) / Number of children enrolled in the MCH service] x100	98.18%

# Our performance

## 2. Community wellbeing

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Service indicator	Measure	Result
Participation in the MCH service by Aboriginal children	<p>[Number of Aboriginal children who attend the MCH service at least once (in the year) / Number of Aboriginal children enrolled in the MCH service] x100</p> <p><i>No children currently registered with the MCH service have identified as having an Aboriginal or Torres Strait Islander background.</i></p>	0%

# Our performance

## 3. Asset management

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Across the 2015/16 financial year Council's asset management team have been focused on delivering a comprehensive preventative maintenance and asset renewal strategy throughout the Shire with the completion of the resealing, major patching and grading programs.

The ongoing implementation of the Stock Grid Policy has seen the removal of fifteen stock grids, fencing of roads, and the replacement of nine stock grids across the Shire achieving the objective of improving service delivery on our unsealed road network.

The Our Bellbridge project resulted in upgrades to recreational facilities and landscaping, which greatly improved the amenity of the foreshore and Roy Williams Park for local users and tourists.

Corryong's centre median gardens in Hanson Street received a welcome revitalisation with additional planning and tree maintenance improving the western entry to the town. Landscaping at both Tallangatta's town entrances was also completed.

A tree management and tree replacement plan have been developed for implementation over the next 10 years. The plan applies to urban streets and prioritises them for planting based on existing canopy cover with a target to increase urban canopy cover to 40% by 2025. Funding through Department Environment Land Water and Planning's Victorian Climate Change Grants will assist with further tree mapping and the development of a climate change resilient species list to guide future tree planning.

Highlights	Challenges
<ul style="list-style-type: none"><li>• Strategic pathways constructed in Corryong and Tallangatta;</li><li>• Bridge works completed at Saxons Road and McHargs Road bridges;</li><li>• Completed Georges Creek Road Stage 3;</li><li>• Town beautification works delivered;</li><li>• Funding obtained for Shelley Walwa Road upgrade; and</li><li>• Funding obtained for the Beating the Heat project.</li></ul>	<ul style="list-style-type: none"><li>• Managing changes in personnel;</li><li>• Vandalism of the Tallangatta swimming pool;</li><li>• Extended backhoe breakdown; and</li><li>• Gravel re-sheeting delayed by prolonged wet weather.</li></ul>

# Our performance

## 3. Asset management

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### Performance update

Strategy and Strategic Indicator		Status	Comments
3.1	Prepare an Asset Management Plan for Recreation <ul style="list-style-type: none"><li>• <i>Asset management plan for Recreation adopted by Council by December 2013</i></li></ul>	In progress	Asset Management Plan for Recreation and Open Spaces developed. Scheduled for completion in 2016/17.
3.2	Prepare an Asset Management Plan for Parks and Gardens (inclusive of trees of significance (e.g. Cudgewa avenue, Tallangatta Triangles, etc)) <ul style="list-style-type: none"><li>• <i>Asset management plan for Parks and Gardens (inclusive of trees of significance) adopted by Council by December 2013</i></li></ul>	In progress	Asset Management Plan for Recreation and Open Spaces developed. Scheduled for completion in 2016/17.  Climate Change Grant (\$10,000) secured to help compile list of climate resilient tree species.  Tree assessments and mapping for tree replacement planning is ongoing.
3.3	Review the method of performing condition assessments (internal vs. external) with a view to bringing it in-house (and implement most appropriate method) <ul style="list-style-type: none"><li>• <i>Review conducted by June 2014</i></li></ul>	Complete	Completed in 2014/15.
3.4	Implement the stock grid policy <ul style="list-style-type: none"><li>• <i>Stock grid policy implemented by Dec 2014</i></li></ul>	In progress	Implementation underway with 25 stock grid owners receiving their legal agreements and fifteen stock grids being removed.
3.5	Deliver the adopted Capital Works program <ul style="list-style-type: none"><li>• <i>Complete 100% of adopted program</i></li></ul>	Complete	The Capital Works program for 2015/16 included projects that would be completed in future years. See detailed explanation in the Financial Summary on page 14.

# Our performance

## 3. Asset management

Strategy and Strategic Indicator		Status	Comments
3.6	<p>Complete condition assessments for road assets and non-road assets (e.g. buildings, playgrounds)</p> <ul style="list-style-type: none"> <li>• <i>Condition assessments for non-road assets completed by December 2013</i></li> <li>• <i>Condition assessments for road assets completed by February 2014</i></li> </ul>	Complete	<p>Annual essential service inspections for Council owned buildings completed.</p> <p>Annual bridge inspections completed.</p>
3.7	<p>Develop a town beautification program for all towns and deliver over the life of the Council Plan</p> <ul style="list-style-type: none"> <li>• <i>Town Beautification Program developed by June 2014 and implemented over the life of the Council Plan</i></li> </ul>	In progress	<p>Works on the Hanson Street, Corryong median strip and roundabout are complete. Works are programmed to renew the service club signs at the entry to Corryong.</p>
3.8	<p>Develop and deliver a footpath replacement and extension program for strategic community links</p> <ul style="list-style-type: none"> <li>• <i>Footpath replacement and extension program developed by September 2014</i></li> </ul>	Complete	<p>Completed in 2014/15.</p>
3.9	<p>Work with VicRoads and other stakeholders to progress the upgrade/sealing of the Benambra-Corryong Road and the Shelley-Walwa Road</p> <ul style="list-style-type: none"> <li>• <i>Funding obtained and/or works commenced by VicRoads by June 2017</i></li> </ul>	Ongoing	<p>Funding secured for the upgrade of the Shelley Walwa Road.</p> <p>The Benambra Corryong Road has been gazetted and will now be maintained by VicRoads.</p>

# Our performance

## 3. Asset management

### Council services

Service area	Description
Engineering services	<p>This service undertakes design, tendering, contract management and supervision of various works within Council's capital works program. This service also conducts asset renewal and maintenance planning for Council's main infrastructure assets in an integrated and prioritised manner in order to optimise their strategic value and service potential. These include:</p> <ul style="list-style-type: none"><li>• Roads, bridges, footpaths;</li><li>• Buildings;</li><li>• Drainage; and</li><li>• Recreation and open spaces.</li></ul>
Depots	<p>This service maintains Council infrastructure, vehicles, plant and equipment to meet functional and safety needs.</p>

### Service performance indicators

Service indicator	Measure	Result
<b>Roads</b>		
Sealed local road requests per 100km of sealed local roads	[Number of sealed local road requests / Kilometres of sealed local roads] x 100	10.48
Sealed local roads maintained adequately	[Number of kilometres of sealed local roads below the renewal intervention level set by Council / Kilometres of sealed local roads] x100	100%
Cost of sealed local road reconstruction per square metre	[Direct cost of sealed local road reconstruction / Square metres of sealed local roads reconstructed] <i>No sealed local roads were constructed in 2015/2016.</i>	\$0
Cost of sealed local road resealing per square metre	[Direct cost of sealed local road resealing / Square metres of sealed local roads resealed]	\$4.48
Community satisfaction with sealed local roads	[Community satisfaction rating out of 100 with how council has performed on the condition of sealed local roads] <i>This result was obtained from the 2016 Community Satisfaction Survey facilitated by the Department of Environment, Land, Water and Planning.</i>	54

# Our performance

## 4. Land-use planning

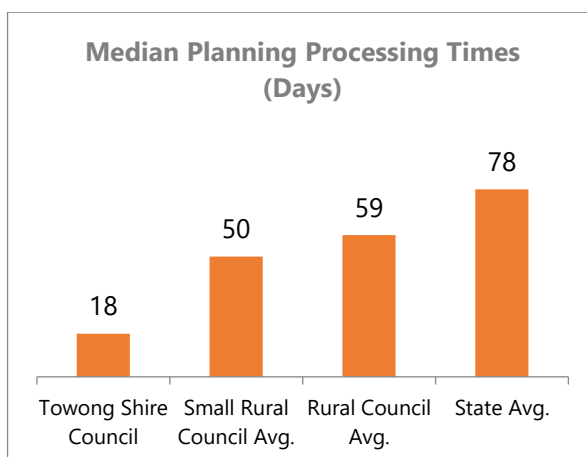
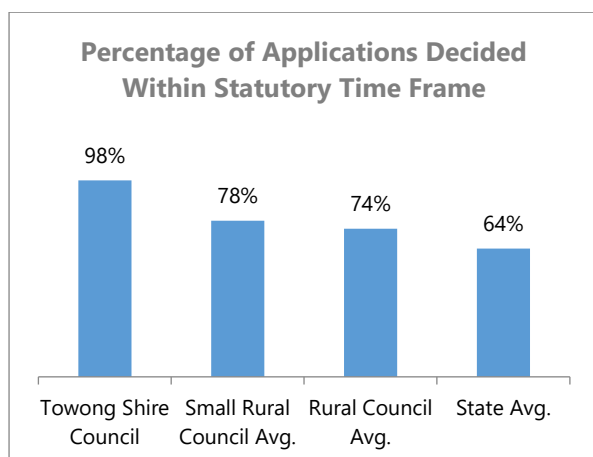
In addition to delivering on our routine statutory planning responsibilities, our planning team has focused on undertaking strategic planning projects to improve the accuracy and operation of the Towong Planning Scheme, improving the management of domestic wastewater across the Shire and the creation of new rural residential development opportunities in key areas within the municipality.

The 2012 *Planning Permit Applications in Open Potable Water Supply Catchment Areas Guidelines* required Council to prepare a Domestic Wastewater Management Plan (DWMP) to guide the management of domestic wastewater in areas which do not have sewerage across the Shire. The Council was able to prepare the DWMP using 'in-house' resources at a low cost. The adoption of the DWMP has enabled progress to be made on other strategic planning items, in particular Towong Planning Scheme Amendment C25.

Towong Planning Scheme Amendment C25 was prepared and placed on exhibition in early 2016. This is one of the largest planning scheme amendments prepared by Council and seeks to provide additional rural residential opportunities at key locations within the municipality, particularly in the Lake Hume area.

Council was involved in its largest ever VCAT planning appeal. The planning application that was the subject of the appeal sought to establish a quarry near Tallangatta. VCAT ultimately upheld Council's decision to refuse the application. In making its decision on the application, VCAT provided clear support for the Local Planning Policy Framework (LPPF) within the Towong Planning Scheme. VCAT also recognised the extensive strategic planning work done by Council in recent years that has underpinned the LPPF.

Despite a heavy strategic planning agenda, the planning department has established itself as having the fastest processing times for planning applications in the State. In addition to providing a fast and efficient planning department, the staff also strive to be as accessible to the community as possible and endeavour to provide consistent, courteous and timely advice for all planning matters.





# Our performance

## 4. Land-use planning

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Highlights	Challenges
<ul style="list-style-type: none"><li>• Council adoption of Domestic Wastewater Management Plan;</li><li>• VCAT decision in relation to the proposed Hardy's Road quarry vindicating Council's original decision and the strategic planning work undertaken by Council;</li><li>• Ministerial approval of Towong Planning Scheme Amendment C34 which improves the accuracy and operation of the Towong Planning Scheme;</li><li>• Preparation and exhibition of Towong Planning Scheme Amendment C25 (Rural Living Zone amendment);</li><li>• Commencement of Upper Murray Flood Study which will improve flood mapping in the Upper Murray;</li><li>• Progress on Section 12b whole of scheme review; and</li><li>• One of the lowest cost planning departments in the State.</li></ul>	<ul style="list-style-type: none"><li>• Withdrawal of DELWP 'Flying Squad' assistance making progress on Section 12b whole of Scheme review and Local Planning Policy Review challenging;</li><li>• Large VCAT planning case requiring the allocation of significant resources; and</li><li>• Increased planning enforcement activity.</li></ul>

# Our performance

## 4. Land-use planning

### Performance update

Strategy and Strategic Indicator		Status	Comments
4.1	<p>Improve our communication in relation to town and land use planning</p> <ul style="list-style-type: none"> <li>• <i>Planning 'Information Pack' prepared and available from June 2014</i></li> <li>• <i>Relevant information available from the Visitor Information Centres by Dec 2014</i></li> <li>• <i>Meetings with real estate agents conducted annually</i></li> </ul>	In progress	The planning team is in regular contact with agents and other industry stakeholders. Pre-development face-to-face or phone meetings are held with the vast majority of applicants.
4.2	<p>Develop and implement a Domestic Wastewater Management Plan</p> <ul style="list-style-type: none"> <li>• <i>Plan adopted by Council by June 2014 and implemented over the life of the Council Plan</i></li> </ul>	Ongoing	<p>Domestic Wastewater Management Plan (DWMP) completed and adopted at November 2015 Council meeting.</p> <p>Implementation to commence 2016-17 financial year.</p>
4.3	<p>Finalise the Rural Living Zone Planning Scheme Amendment</p> <ul style="list-style-type: none"> <li>• <i>Amendment finalised by Dec 2014</i></li> </ul>	In progress	<p>Council requested for a Planning Panel to resolve outstanding submissions.</p> <p>Panel hearing to take place in September 2016.</p>
4.4	<p>Complete BMO Schedule Project (including the refining of hazard mapping where necessary)</p> <ul style="list-style-type: none"> <li>• <i>Project completed and amendment finalised by June 2015</i></li> </ul>	Complete	Completed in 2013/14.
4.5	<p>Complete a section 12B (<i>Planning and Environment Act</i>) review of Towong Planning Scheme</p> <ul style="list-style-type: none"> <li>• <i>Review completed by June 2015</i></li> </ul>	In progress	Consultation draft developed.
4.6	<p>Revise Local Planning Policies with a view to protecting strategically important land for food production</p> <ul style="list-style-type: none"> <li>• <i>Policies developed and adopted by Dec 2015</i></li> </ul>	Not commenced	This initiative requires the above review of the Towong Planning Scheme to be completed. Now scheduled to commence in 2016-17.

# Our performance

## 4. Land-use planning

Strategy and Strategic Indicator		Status	Comments
4.7	Implement key MSS recommendations including individual town structure plans via Planning Scheme Amendments <ul style="list-style-type: none"> <li>• <i>Amendments finalised by Dec 2016</i></li> </ul>	In progress	Amendment documentation under development.
4.8	Acquire updated Aerial photography for rural areas and townships <ul style="list-style-type: none"> <li>• <i>Improved aerial photography acquired over the life of the Council Plan</i></li> </ul>	Complete	Completed in 2013/14.
4.9	Lobby for improved Hazard mapping (fire and flood) NECMA/State Govt <ul style="list-style-type: none"> <li>• <i>Improved mapping acquired over the life of the Council Plan</i></li> </ul>	In progress	Project underway.

## Council services

Service area	Description
Planning	This statutory planning service processes all planning applications, provides advice and makes decisions about development proposals which require a planning permit, as well as representing Council at the Victorian Civil and Administrative Tribunal where necessary. It administers the Towong Planning Scheme as well as preparing major policy documents shaping the future of the Shire. It also prepares amendments to the Towong Planning Scheme and carries out research on demographic, urban development, economic and social issues affecting Council.
Building services	This service provides statutory building services to the Council community including processing of building permits, fire safety inspections, audits of swimming pool barriers and investigations of complaints and illegal works.
Environmental health	This service protects the community's health and well-being by coordinating food safety support programs, <i>Tobacco Act</i> activities and smoke free dining and gaming venue issues. The service also works to rectify any public health concerns relating to unreasonable noise emissions, housing standards and pest controls.

# Our performance

## 4. Land-use planning

### Service performance indicators

Service indicator	Measure	Result
<b>Food safety</b>		
Time taken to action food complaints	[Number of days between receipt and first response action for all food complaints / Number of food complaints] <i>There were no food complaints received in 2015/2016.</i>	0
Percentage of required food safety assessments undertaken	[Number of registered class 1 food premises and class 2 food premises that receive an annual food safety assessment in accordance with the <i>Food Act 1984</i> / Number of registered class 1 food premises and class 2 food premises that require an annual food safety assessment in accordance with the <i>Food Act 1984</i> ] x100	100%
Cost of food safety service per premises	[Direct cost of the food safety service / Number of food premises registered or notified in accordance with the <i>Food Act 1984</i> ]	\$940.02
Percentage of critical and major non-compliance outcome notifications followed up by council	[Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises followed up / Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises] x100	100%
<b>Statutory planning</b>		
Time taken to decide planning applications	[The median number of days between receipt of a planning application and a decision on the application]	18 days
Planning applications decided within 60 days	[Number of planning application decisions made within 60 days / Number of planning application decisions made] x100	97.96%
Cost of statutory planning service per planning application	[Direct cost of the statutory planning service / Number of planning applications received]	\$3003.25
Council planning decisions upheld at VCAT	[Number of VCAT decisions that did not set aside council's decision in relation to a planning application / Number of VCAT decisions in relation to planning applications] x100	100%

# Our performance

## 5. Environmental sustainability

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Our teams have continued to deliver quality services while making excellent progress to implement Council Plan priorities over the 2015/16 year.

A new landfill cell was constructed at Corryong to Environment Protection Authority Victoria (EPA)'s standards. An EPA inspection confirmed that the site was adequately designed and constructed to take municipal waste for the next two years. Upgrades were completed at both the Tallangatta and Corryong transfer stations with the assistance of funding from Sustainability Victoria, including the installation of additional storage, access roads and hardstand areas to improve the separation of recyclables.

The in-house waste and recycling kerbside collection services functioned well with significant savings observed throughout the 2015/16 year of operation. Dashboard cameras on the trucks were trialled successfully and provided useful information to enable faster responses to customer requests. A further two cameras have been purchased and will be installed in the remaining trucks in the near future

Streetlights in the Shire's urban areas have been upgraded to LEDs as an energy-saving initiative. This project is anticipated to achieve annual savings of approximately \$43,000 at current electricity prices with an estimated payback of seven years. The streetlight conversion will also eliminate the equivalent of more than 100,000 tonnes of CO<sub>2</sub> per year.

The new roadside weed and pest program funded by the Victorian Government enabled a significant level of control over the extent and severity of blackberry infestations along all local council roads. In some sections, spraying was carried out in conjunction with Parks Victoria's 'Good Neighbour Program' in order to maximise the effectiveness of the blackberry control in that area. Roadside weed mapping was also conducted this year with the results indicating a 75% reduction in the roadside blackberry population since the original program started in 2006. Funding has been confirmed for the coming year to continue this work.

A climate change risk assessment framework has been developed for all areas of operations through the VAS Partnership Climate Change Adaptation Action Planning project. The framework will enable climate change mitigation measures to be considered for implementation into the future, reducing the risk to Council's operation.

Highlights	Challenges
<ul style="list-style-type: none"><li>• Upgrades to Tallangatta and Corryong transfer stations;</li><li>• Construction of landfill and leachate dam to EPA standards;</li><li>• Street tree mapping and assessment;</li><li>• Upgrade of streetlights to LEDs; and</li><li>• Obtaining funding for solar upgrades.</li></ul>	<ul style="list-style-type: none"><li>• Staffing changes.</li></ul>

# Our performance

## 5. Environmental sustainability

### Performance update

Strategy and Strategic Indicator		Status	Comments
5.1	Finalise the Bushfire Camera Network project <ul style="list-style-type: none"> <li>• <i>Project completed by Dec 2013</i></li> </ul>	Complete	Completed in 2013/14.
5.2	Explore solutions for Bellbridge water and waste water expansion (in conjunction with NEW) <ul style="list-style-type: none"> <li>• <i>Options paper prepared by June 2014</i></li> </ul>	In progress	A review of land zoning has been undertaken to inform North East Water's planning options.
5.3	Lobby for the expansion/improvement of the NE Water Tallangatta wastewater plant to accommodate future development in Tallangatta and the elimination of odour emanating from the plant <ul style="list-style-type: none"> <li>• <i>Commitment from North East Water to have a system in place that can accommodate future development in Tallangatta over the life of the Council Plan</i></li> </ul>	In progress	The date for completing this strategy has been revised to June 2017.
5.4	Implement the adopted outcomes from the Waste Management Services review and refine our Waste Management services over the life of the Council Plan <ul style="list-style-type: none"> <li>• <i>Implement adopted outcomes by Dec 2013</i></li> <li>• <i>Satisfaction Survey conducted Dec 2014</i></li> <li>• <i>Achievement of a sustainable financial outcome for the Council</i></li> <li>• <i>Increased employment within Shire</i></li> </ul>	Ongoing	Successfully trialled dash camera on a waste service truck to audit number of bins at commercial properties.
5.5	Explore waste to energy options suitable for a small municipality <ul style="list-style-type: none"> <li>• <i>Report prepared for Council by December 2015</i></li> </ul>	In progress	Funding avenues being reviewed for feasibility studies.
5.6	Consider the options available for the Bethanga Wastewater project and deliver a solution (if feasibility can be established) <ul style="list-style-type: none"> <li>• <i>Direction to be taken determined and agreed by Dec 2014</i></li> <li>• <i>Agreed approach (if any) implemented by December 2016</i></li> </ul>	In progress	Further direction established with North East Water.

# Our performance

## 5. Environmental sustainability

Strategy and Strategic Indicator		Status	Comments
5.7	<p>Provide proactive support to DEPI Wild Dog Program and lobby for increased resourcing in the Towong Shire</p> <ul style="list-style-type: none"> <li>• <i>Agri-IQ developed and implemented by June 2016</i></li> </ul>	Not commenced	Scheduled for review in 2016/17.
5.8	<p>Continue to implement noxious weed controls along roadsides and encourage adjoining landowners (including DSE and Parks Vic) to also implement controls on their property</p> <ul style="list-style-type: none"> <li>• <i>Reduction in noxious weeds (as identified through mapping)</i></li> <li>• <i>Development and implementation of a Roadside Management Plan</i></li> </ul>	Ongoing	<p>Roadside blackberry spraying program has been completed for the 2015/16 period.</p> <p>Roadside weed mapping is completed.</p>
5.9	<p>Continue to maintain and monitor operational and closed landfills within EPA guidelines</p> <ul style="list-style-type: none"> <li>• <i>All EPA requirements met over the life of the Council Plan</i></li> </ul>	Ongoing	Works at Corryong Landfill completed in accordance with EPA requirements. Closed landfills are being monitored in accordance with guidelines.
5.10	<p>Support waste minimisation and management initiatives in the North East Regional Waste Implementation Plan and Regional Waste Minimisation Strategy</p> <ul style="list-style-type: none"> <li>• <i>Reduction in waste being deposited in landfills (local and external)</i></li> </ul>	Ongoing	Educational initiatives implemented during the introduction of the in-house kerbside service delivery model. The Sustainability Victoria funded upgrades to the Corryong and Tallangatta transfer stations will improve the separation of recyclables.

## Council services

Service area	Description
Waste services	This service provides waste collection including kerbside collections of rubbish and recycling from households and commercial properties, special hard waste, green waste collections, transfer station and land fill management.
Emergency management	This service provides Council's emergency management planning function.

# Our performance

## 5. Environmental sustainability

Service area	Description
Animal control	This service provides animal management services including a cat trapping program, dog / cat collection service, lost and found notification service, pound service, registration / administration service and an after-hours emergency service. It also provides education, regulation and enforcement of the Local Law and relevant State legislation.
Community facilities	This service manages and maintains Council owned community facilities, parks and gardens and public toilets.

### Service performance indicators

Service indicator	Measure	Result
<b>Animal management</b>		
Time taken to action animal management requests	[Number of days between receipt and first response action for all animal management requests / Number of animal management requests]	3.64 days
Animals reclaimed from council	[Number of animals reclaimed / Number of animals collected] x100	50%
Cost of animal management service per registered animal	[Direct cost of the animal management service / Number of registered animals]	\$57.51
<b>Waste collection</b>		
Kerbside bin collection requests per 1000 households	[Number of kerbside garbage and recycling bin collection requests / Number of kerbside bin collection households] x1000	90.05
Kerbside collection bins missed per 10,000 households	[Number of kerbside garbage and recycling collection bins missed / Number of scheduled kerbside garbage and recycling collection bin lifts] x10,000	1.97
Cost of kerbside garbage bin collection service per year	[Direct cost of the kerbside garbage bin collection service / Number of kerbside garbage collection bins]	\$135.69
Cost of kerbside recyclables collection service per year	[Direct cost of the kerbside recyclables bin collection service / Number of kerbside recyclables collection bins]	\$71.51
Kerbside collection waste diverted from landfill	[Weight of recyclables and green organics collected from kerbside bins / Weight of garbage, recyclables and green organics collected from kerbside bins] x100	32.32%



# Our performance

## 6. Economic and tourism development

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The Council Plan 2013-17 set out to deliver on Towong Shire's potential from an investment, business and tourism perspective. In line with these, several identified projects have been completed this year and others are nearing completion.

In late 2015, the Federal Government announced funding of \$2.6m through the National Stronger Regions Fund for the 'Destination Tallangatta' project. Works to the Tallangatta Holiday Park, guided by the Tallangatta Holiday Park Planning Study, as well as works to the Tallangatta foreshore, and shopping precinct, will provide a high quality experience for visitors and residents.

The Upper Murray 2030 Vision Plan project is nearing completion, with five priority projects identified. A funding application to deliver one of the key projects, the Great River Road Touring Route, is currently under consideration by the Federal Government.

Funding of \$532,399 was announced for the Corryong Airport Redevelopment with works to be undertaken during 2016/17. A new leasable hangar area, runway lighting, a shared terminal building, as well as offices, hardstands and mixing sheds, will be constructed as part of the project.

In the Mitta Valley, the Our Valley, Our Future project moved into a sustainability phase, following a successful partnership between Council, the Gardiner Foundation and the community.

Highlights	Challenges
<ul style="list-style-type: none"><li>• Corryong Airport Precinct funded;</li><li>• Our Valley, Our Future project transitioned into sustainability phase;</li><li>• Secured \$2.6 million in funding from Australian Government's National Stronger Regions Fund for the 'Destination Tallangatta' project; and,</li><li>• Our Bellbridge project works completed.</li></ul>	<ul style="list-style-type: none"><li>• Staffing changes at Visitor Information Centre resulted in rostering challenges; and,</li><li>• Finalisation of the Upper Murray 2030 Vision Plan was delayed to enable better consultation outcomes to be achieved.</li></ul>

# Our performance

## 6. Economic and tourism development

### Performance update

Strategy and Strategic Indicator		Status	Comments
6.1	<p>Explore options in relation to the Corryong Airport upgrade (including lighting)</p> <ul style="list-style-type: none"> <li>• <i>Feasibility of upgrade determined by Dec 2013</i></li> <li>• <i>Project funding pursued (if project is feasible) by June 2014</i></li> </ul>	Complete	Funding of \$532,399 secured for the Corryong Airport upgrade with works scheduled to commence in October 2016.
6.2	<p>Auspice and support the successful delivery of the Alpine Valleys Dairy Pathways Project</p> <ul style="list-style-type: none"> <li>• <i>Project successfully completed</i></li> </ul>	Complete	Completed in 2013/14.
6.3	<p>Develop, launch and maintain the Corryong and Tallangatta Tourism Websites</p> <ul style="list-style-type: none"> <li>• <i>Websites developed and launched by December 2013</i></li> </ul>	In progress	Upper Murray site has been developed with the official launch expected in late 2016.
6.4	<p>Review Council's role in the delivery of Tallangatta Visitor Information Services and implement the adopted outcomes from the review</p> <ul style="list-style-type: none"> <li>• <i>Review conducted by Dec 2013 and recommendations adopted by Council by March 2014</i></li> <li>• <i>Adopted recommendations implemented by Dec 2014</i></li> </ul>	Complete	Hub Cottage Industries now delivering Visitor Services in Tallangatta. Static display space requires updating.
6.5	<p>Seek funding to seal the Colac Colac Walking Track</p> <ul style="list-style-type: none"> <li>• <i>Application for funding submitted by June 2014</i></li> </ul>	Complete	Completed in 2013/14.
6.6	<p>Develop a Corryong Saleyards strategy</p> <ul style="list-style-type: none"> <li>• <i>Strategy developed by June 2014 and adopted recommendations implemented by June 2015</i></li> </ul>	Complete	Completed in 2014/15.
6.7	<p>Continue to work towards the availability of Industrial land in Corryong and Tallangatta</p> <ul style="list-style-type: none"> <li>• <i>Report to Council on Industrial Land supply options by June 2016</i></li> </ul>	In progress	Two parcels of land were investigated for the potential hosting of an industrial estate. Based on current constraints, these parcels were not available/appropriate.

# Our performance

## 6. Economic and tourism development

Strategy and Strategic Indicator		Status	Comments
6.8	Lobby the Federal Government in order to maximise the NBN outcomes for our communities. <ul style="list-style-type: none"> <li>• <i>Improved high speed Broadband delivery</i></li> </ul>	Ongoing	Council continues to raise this with Fed Gov representatives and NBN at every opportunity.
6.9	Lobby Federal Government and private telcos for improved mobile coverage <ul style="list-style-type: none"> <li>• <i>Improved mobile coverage achieved over the life of the Council Plan</i></li> </ul>	Ongoing	Information on priorities for improved coverage in Towong Shire provided to Telstra and the Fed Gov.
6.10	Support the Agribusiness sector in Towong Shire to achieve profitability and sustainability <ul style="list-style-type: none"> <li>• <i>Report to Council on strategy and possible actions to support the sector by June 2014 and implement adopted recommendations over the life of the Council Plan</i></li> </ul>	In progress	Strategy drafted and scheduled to be finalised in 2015/16.
6.11	Support the Retail, Commercial and Industrial sectors in Towong Shire to achieve profitability and sustainability <ul style="list-style-type: none"> <li>• <i>Report to Council on strategy and possible actions to support the sectors by Dec 2014 and implement adopted recommendations over the life of the Council Plan</i></li> </ul>	In progress	Strategy drafted and scheduled to be finalised in 2015/16.
6.12	Promote the Omeo Highway and the Benambra-Corryong Road as touring links to the Gippsland region <ul style="list-style-type: none"> <li>• <i>Promotional campaign developed by Dec 2014 and implemented over the life of the Council Plan</i></li> </ul>	Ongoing	Promotional material has been distributed to Visitor Information Centres.
6.13	Develop a strategic plan to manage the outcomes for Corryong with the possible establishment of the molybdenum mine <ul style="list-style-type: none"> <li>• <i>Strategic plan developed by Dec 2014 and recommendations implemented if the mine proceeds</i></li> </ul>	Ongoing	Dart Mining have decided to focus on another assets and shelve Unicorn until molybdenum prices rise or demand increases.
6.14	Encourage (and where possible deliver) sustainable design for community buildings and residential estate development. <ul style="list-style-type: none"> <li>• <i>Best practice environmental design principles used in the delivery of the Integrated Community Hub</i></li> </ul>	Ongoing	Best practice design principles have been used for the Tallangatta Integrated Community Centre.

# Our performance

## 6. Economic and tourism development

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### Council services

Service area	Description
Economic development	The economic development service assists the organisation to facilitate an environment that is conducive to a sustainable and growing local business sector and provides opportunities for local residents to improve their skill levels and access employment.
Tourism	This service provides a Visitor Information Centre in Corryong to provide advice to visitors to the Upper Murray.

# Governance, management and other information

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## Governance

### Governance

Towong Shire Council was established by an Order of the Governor in Council on 24 October 1996 and is a Body Corporate. Council's main office is located at 32 Towong Street, Tallangatta.

The purpose of Council is to:

- Provide for the peace, order and good government of its municipal district;
- Facilitate and encourage appropriate development of its municipal district in the best interests of the community;
- Provide equitable and appropriate services and facilities for the community and to ensure that those services and facilities are managed efficiently and effectively; and
- Manage, improve and develop the resources of its district efficiently and effectively.

Council recognises that effective governance is the key to ensuring that Council meets the community's priorities. The community has opportunity to provide formal input into Council's decision making processes through specific community engagement sessions, the 'Open Forum' held in conjunction with Council's monthly meeting, as well as the formal submission process involved with many of Council's key plans.

Many formal decisions are made at Council Meetings, however some of Council's powers have been delegated to Council staff. These delegations are exercised in accordance with Council policies.

### Council meetings

Council's ordinary meetings are held monthly (except January where there is no meeting). These meetings are conducted in accordance with Council's Meeting Procedures Local Law.

For 2015/16 Council held the following meetings:

- Eleven (11) Ordinary Council Meetings; and
- Three (3) Special Council Meetings.

### Special committees

Council has two Section 86 Special Committees and their purposes are as follows:

- Riverview Committee of Management – to provide and manage self contained accommodation at Riverview Units, Walwa; and
- Guys Forest Recreation Reserve Committee of Management– to manage the Guys Forest Recreation Reserve.

### Code of conduct

The *Local Government Act 1989* requires councils to develop and approve a Councillor Code of Conduct within 12 months after each general election. On 1 October 2013 Council adopted a Councillor Code of Conduct.

# Governance, management and other information

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The Councillor Code of Conduct is designed to:

- Provide good governance for the Towong municipality;
- Create common understandings of the different roles of the Mayor, Councillors, Chief Executive Officer and the administration;
- Identify key relationships and how they can contribute to good governance; and
- Support good governance by creating a framework in which legitimate differences in opinions, beliefs and values can be discussed constructively and resolved in the interests of the Towong municipality.

In addition to setting out good governance protocols, the Councillor Code of Conduct also outlines:

- Councillor behaviour principles;
- Conflict of interest procedures;
- Dispute resolution procedures;
- Decisions during caretaker periods; and
- Appropriate use of Council resources.

Council adopted an updated Councillor Code of Conduct on 5 July 2016.

## Conflict of interest

Councillors are elected by the residents and ratepayers to act in the best interests of the community. This is a position of trust. Council officers, as delegated and authorised representatives of Council, are also required to act in the public interest.

A conflict of interest occurs when a personal or private interest might compromise the ability to act in the public interest. A conflict of interest exists even if no improper act results from it. Council has procedures in place to accommodate the disclosure of a conflict of interest. Declaration of a conflict of interest is a standard agenda item for all Council Meetings.

There were four (4) conflicts of interest declared at Council Meetings during 2015/16.

## Councillor allowances and expenses

Mayors and councillors are entitled to receive an allowance while performing their duty as an elected official. The Victorian Government sets the upper and lower levels for allowances paid to councillors. Councils are required to review allowance levels by 30 June in the year following a general election and the allowance level determined remains in effect for the full term of the council.

Councils are divided into three categories based on the income and population of each Council. Towong Shire Council is a category 1 council.

The Minister for Local Government has approved an adjustment factor increase of 2.5% to the below Mayoral and Councillor allowances, effective 1 December 2015, under section 73B(4) of the *Local Government Act 1989* bringing allowances for category 1 councils to:

Mayor:	\$57,812
Councillors:	\$19,350

An amount equivalent of the superannuation guarantee contribution is payable in addition to the above set allowance. The superannuation guarantee contribution percentage was 9.5% for 2015/16.

## Governance, management and other information

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### Details of expenses including reimbursements

Expense item	Cr. Peter Joyce	Cr. Mary Fraser	Cr. David Wortmann	Cr. Debi Gadd	Cr. Aaron Scales
	\$	\$	\$	\$	\$
Conferences/training	-	527	900	290	28
Accommodation	335	1,280	1,537	769	355
Car mileage/travel allowance	3,713	2,682	-	2,835	304
Motor vehicle costs – Council owned vehicle	-	-	2,468	-	1,434
Meeting allowance	560	720	2,680	920	1,640
Internet/phone/mobile	3,235	316	2,397	2,435	757
<b>Total expenses</b>	<b>\$7,843</b>	<b>\$5,526</b>	<b>\$9,982</b>	<b>\$7,249</b>	<b>\$4,517</b>

# Governance, management and other information

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## Management

### Audit Committee

Council's Audit Committee was established by resolution of Council on 19 January 1998. The Committee is an independent advisory committee to Council to assist in the effective conduct of its responsibilities for financial reporting, management of risk, maintaining a reliable system of internal controls and facilitating the organisation's ethical development.

The Audit Committee meets quarterly to discuss Council's budget, finance reports, Council Plan priorities, external and internal audits, OHS, tendering, performance reporting, finance systems, legal compliance actions, risk management and policy development.

Policies due for Council approval each month are also reviewed by Audit Committee members and their recommendations presented to Council.

During 2015/16, the Audit Committee considered:

#### Financial management and performance reporting

- Annual financial statements and the external Auditor's reports;
- Budget development;
- Financial and Council Plan reporting;
- Local Government Performance Reporting framework; and
- Rate capping and variation framework and submission.

#### Risk management

- Risk assessments for major projects;
- Risk management strategy and action plan;
- OHS Safety Management System and action plan;
- Swimming pool audits;
- Municipal Emergency Management Planning (MEMP) and audit;
- Investments in associates; and
- Environmental Protection Agency inspection report (Corryong landfill).

#### Business continuity

- Human resource management; and
- Business Continuity Plan.

#### Compliance

- Systems and procedures surrounding legal matters.

#### Reporting responsibilities

- Findings of relevant Performance Audits undertaken by the Victorian Auditor-General;
- Reports from the Victorian Ombudsman; and
- Tenders awarded.

The Committee is comprised of the Mayor and two or more independent external members. The external independent members of the Audit Committee are appointed for a maximum four year term.



# Governance, management and other information

The following independent members served on Council's Audit Committee during 2015/16:

<b>Ms Narelle Klein</b> Current Chair	Narelle was appointed to the Audit Committee in March 2014. A Chartered Accountant, Narelle is the Financial Reporting and Audit Liaison Manager at the Australian Taxation Office and a member of the Tallangatta Health Service Board of Management. She has substantial experience in financial, management and taxation accounting, external audit processes, corporate and strategic planning, corporate governance and risk management. Narelle resides on a small rural property near Bethanga with her family.
<b>Ms Kerrie Clarke</b> Current Member	Kerrie was appointed to the Audit Committee in March 2015. Kerrie is a Certified Practising Accountant and is the Chief Finance Officer at Upper Murray Health and Community Services in Corryong, a position she has held for over 10 years. She holds a Bachelor of Business (Accounting / Finance), is involved in the Corryong SES and resides on 6 acres at Cudgewa with her family.
<b>Mr Robert Lees</b> Current Member	Robert was appointed to the Audit Committee in March 2015. He is currently the Senior Procurement Officer for Albury Wodonga Health after a varied local and international career in commercial development, commodity trading, procurement and operations management. Robert has significant experience in corporate governance, procurement, strategic planning, lean manufacture, and general management. He has positions on the boards of Hume Employment Services Limited, Belmere Pty Ltd and Tallangatta Health Service and is also a member of the Rotary Club of Bellbridge Lake Hume. Robert has lived in the Shire for most of his life and currently lives in Bellbridge.

## External audit

Council is externally audited by the Victorian Auditor-General. For the 2015/16 year the annual external audit of Council's Financial Statements and Performance Statement was conducted by the Victorian Auditor-General's representative, Johnsons MME. The external auditors engage with Council's Audit Committee to present their independent audit report. The external audit management letter and responses are also provided to the Audit Committee.

## Risk management

Towong Shire Council is committed to taking a best practice approach to managing risk. We recognise that risks are inherent in all our functions and understand that all systems and processes exhibit variability, impacting on predictability and performance.

Managing risk is a conscious decision to improve Council's systems and processes - not to finger point when things go wrong.

The objectives of our Risk Management Policy are to:

- Ensure we appropriately deal with risk;
- Safeguard our assets: people, financial and property;
- Create an environment where all our employees will assume responsibility for managing risk;

## **Governance, management and other information**

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- Preserve our ability to deliver policy and performance objectives in a timely, efficient and effective manner; and
- Implement transparent and responsible risk management processes, which align with accepted best practice.

### **Best Value**

Council applies the principles of Best Value in accordance with the legislative requirements. Through its commitment to providing best value to its communities Council takes a proactive and systematic approach to keeping costs as low as possible while striving to deliver services to the standard expected by the community.

Council has been recognised as a leader in procurement and process efficiency in the local government sector. Council is also recognised for its innovative 'Shared Services' arrangements which have resulted in improved service delivery and reduced costs through collaboration with neighbouring Councils. Shared services have been established for the following services:

- Building control;
- Environmental health;
- Rates and property;
- Information Technology support; and
- Immunisations.

# Governance, management and other information

## Governance and management checklist

Governance and Management Items	Assessment	
<p><b>1 Community engagement policy</b></p> <p>(policy outlining council's commitment to engaging with the community on matters of public interest)</p>	<p>Policy</p> <p>Date of operation of current policy: 1 December 2009</p> <p>Draft updated policy has been prepared though not formally adopted.</p>	Yes
<p><b>2 Community engagement guidelines</b></p> <p>(guidelines to assist staff to determine when and how to engage with the community)</p>	<p>Guidelines</p> <p>Date of operation of guidelines: 1 December 2009</p> <p>Draft updated guidelines have been prepared though not formally adopted.</p>	Yes
<p><b>3 Strategic Resource Plan</b></p> <p>(plan under section 126 of the Act outlining the financial and non-financial resources required for at least the next 4 financial years)</p>	<p>Adopted in accordance with section 126 of the Act</p> <p>Date of adoption: 7 June 2016</p>	Yes
<p><b>4 Annual budget</b></p> <p>(plan under section 130 of the Act setting out the services to be provided and initiatives to be undertaken over the next 12 months and the funding and other resources required)</p>	<p>Adopted in accordance with section 130 of the Act.</p> <p>Date of adoption: 2 August 2016</p> <p>(The Minister extended the date from 30 June 2016 to 3 August 2016 for the adoption of Council's 2016/17 Budget).</p>	Yes
<p><b>5 Asset management plans</b></p> <p>(plans that set out the asset maintenance and renewal needs for key infrastructure asset classes for at least the next 10 years)</p>	<p>Current plans in operation</p> <p>Date of operation of current plans: Roads – 6 August 2012 Drainage – Draft Buildings and structures - Draft</p>	Yes
<p><b>6 Rating strategy</b></p> <p>(strategy setting out the rating structure of Council to levy rates and charges)</p>	<p>Current strategy in operation</p> <p>Date of operation of current strategy: 2 August 2016</p>	Yes
<p><b>7 Risk policy</b></p> <p>(policy outlining Council's commitment and approach to minimising the risks to Council's operations)</p>	<p>Current policy in operation</p> <p>Date of operation of current policy: 3 May 2016</p>	Yes
<p><b>8 Fraud policy</b></p> <p>(policy outlining council's commitment and approach to minimising the risk of fraud)</p>	<p>Current policy in operation</p> <p>Date of operation of current policy: 1 December 2015</p>	Yes

## Governance, management and other information

<p><b>9 Municipal emergency management plan</b> (plan under section 20 of the <i>Emergency Management Act 1986</i> for emergency prevention, response and recovery)</p>	<p>Prepared and maintained in accordance with section 20 of the <i>Emergency Management Act 1986</i>  Date of preparation: 4 August 2015</p>	<p>Yes</p>
<p><b>10 Procurement policy</b> (policy under section 186A of the <i>Local Government Act 1989</i> outlining the matters, practices and procedures that will apply to all purchases of goods, services and works)</p>	<p>Prepared and approved in accordance with section 186A of the <i>Local Government Act 1989</i>  Date of approval: 3 May 2016</p>	<p>Yes</p>
<p><b>11 Business continuity plan</b> (plan setting out the actions that will be undertaken to ensure that key services continue to operate in the event of a disaster)</p>	<p>Current plan in operation  Date of preparation: 1 March 2014</p>	<p>Yes</p>
<p><b>12 Disaster recovery plan</b> (plan setting out the actions that will be undertaken to recover and restore business capability in the event of a disaster)</p>	<p>Current plan in operation  Date of preparation: 1 March 2014</p>	<p>Yes</p>
<p><b>13 Risk management framework</b> (framework outlining council's approach to managing risks to the Council's operations)</p>	<p>Current framework in operation  Date of operation of current framework: 1 July 2015</p>	<p>Yes</p>
<p><b>14 Audit Committee</b> (advisory committee of council under section 139 of the Act whose role is to oversee the integrity of a council's financial reporting, processes to manage risks to the council's operations and for compliance with applicable legal, ethical, and regulatory requirements)</p>	<p>Committee established in accordance with section 139 of the Act  Date of establishment: 18 December 1996</p>	<p>Yes</p>
<p><b>15 Internal audit</b> (independent accounting professionals engaged by the council to provide analyses and recommendations aimed at improving council's governance, risk and management controls)</p>	<p>Internal auditor engaged  Reason why no auditor engaged:  Council has completed a strategic risk assessment and subsequently engaged relevant technical experts to conduct audits of its high risk exposures. At this point in time it has not been considered necessary to engage an independent accounting professional.</p>	<p>No</p>
<p><b>16 Performance reporting framework</b> (a set of indicators measuring financial and non-financial performance, including the performance indicators referred to in section 131 of the Act)</p>	<p>Current framework in operation  Date of operation of current framework: 1 July 2015</p>	<p>Yes</p>

## Governance, management and other information

<p><b>17 Council Plan reporting</b></p> <p>(report reviewing the performance of the council against the Council Plan, including the results in relation to the strategic indicators, for the first six months of the financial year)</p>	<p>Current report</p> <p>Date of current report: 2 February 2016</p>	<p>Yes</p>
<p><b>18 Financial reporting</b></p> <p>(quarterly statements to Council under section 138 of the Act comparing budgeted revenue and expenditure with actual revenue and expenditure)</p>	<p>Statements presented to council in accordance with section 138(1) of the Act</p> <p>Date statements presented: 7 July 2015, 6 October 2015, 2 February 2016, 3 May 2016</p>	<p>Yes</p>
<p><b>19 Risk reporting</b></p> <p>(six-monthly reports of strategic risks to council's operations, their likelihood and consequences of occurring and risk minimisation strategies)</p>	<p>Reports prepared and presented</p> <p>Date of reports: 6 October 2015, 7 June 2016</p>	<p>Yes</p>
<p><b>20 Performance reporting</b></p> <p>(six-monthly reports of indicators measuring the results against financial and non-financial performance, including performance indicators referred to in section 131 of the Act)</p>	<p>Reports prepared and presented</p> <p>Date of reports: 20 October 2015, 7 June 2016</p>	<p>Yes</p>
<p><b>21 Annual report</b></p> <p>(annual report under sections 131, 132 and 133 of the Act to the community containing a report of operations and audited financial and performance statements)</p>	<p>Considered at a meeting of council in accordance with section 134 of the Act</p> <p>Date statements presented: 20 October 2015</p>	<p>Yes</p>
<p><b>22 Councillor Code of Conduct</b></p> <p>(Code under section 76C of the Act setting out the conduct principles and the dispute resolution processes to be followed by Councillors)</p>	<p>Reviewed in accordance with section 76C of the Act</p> <p>Date reviewed: 1 July 2016</p>	<p>Yes</p>
<p><b>23 Delegations</b></p> <p>(a document setting out the powers, duties and functions of council and the Chief Executive Officer that have been delegated to members of staff)</p>	<p>Reviewed in accordance with section 98(6) of the Act</p> <p>Date of review: 1 October 2013</p>	<p>Yes</p>
<p><b>24 Meeting procedures</b></p> <p>(a local law governing the conduct of meetings of council and special committees)</p>	<p>Meeting procedures local law made in accordance with section 91(1) of the Act</p> <p>Date local law made: 1 October 2013</p>	<p>Yes</p>

# Governance, management and other information

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## Statutory information

### Information available for inspection

The opportunity to access information about Council operations is a vital part of open and accountable government. Residents and ratepayers of Towong Shire can access information either through the information available for public inspection (as recorded below) or through the Freedom of Information process.

The following information can be accessed from Council's Tallangatta Office by appointment:

- Details of current allowances fixed for the Mayor and Councillors;
- The total annual remuneration for all senior officers in respect of the current financial year and the previous financial year;
- Details of overseas or interstate travel (with the exception of interstate travel by land for less than 3 days) undertaken in an official capacity by Councillors or any member of Council staff in the previous 12 months;
- Names of Council officers who were required to submit a return of interest during the financial year and the dates the returns were submitted;
- Names of Councillors who submitted returns of interest during the financial year and the dates the returns were submitted;
- Agendas for and minutes of ordinary and special meetings held in the previous 12 months except if the minutes relate to parts of meetings which have been closed to members of the public;
- A list of all special committees established by Council and the purpose for which each committee was established;
- A list of all special committees established by the Council which were abolished or ceased to function during the financial year;
- Minutes of meetings of special committees held in the previous 12 months except if the minutes relate to parts of meetings which have been closed to members of the public;
- A register of delegations;
- Submissions received in accordance with section 223 of the Act during the previous 12 months;
- Agreements to establish regional libraries;
- Details of all property, finance and operating leases involving land, buildings, plant, computer equipment or vehicles entered into by the Council as lessor or lessee, including the name of the other party to the lease and the terms and the value of the lease;
- A register of authorised officers;
- A list of donations and grants made by the Council during the financial year;
- A list of the names of the organisations of which the Council was a member during the financial year and details of all membership fees and other amounts and services provided during that year to each organisation by the Council; and
- A list of contracts valued at \$150,000 or more which the Council entered into during the financial year without first engaging in a competitive process.

# Governance, management and other information

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## Carers Recognition Act

In accordance with the *Carers Recognition Act 2012* Council is required to report annually on its care management obligations under section 11 of that Act. Council has taken all practicable measures to comply with its responsibilities outlined in the *Carers Recognition Act 2012*. Council has promoted the principles of the Act to people in care relationships who receive council services; to people in care relationships, and to the wider community by:

- Distributing printed material through relevant council services; and
- Providing information to organisations represented in Council/community networks.

Council has taken all practicable measures to ensure staff, council agents and volunteers working for Council are informed about the principles and obligations of the Act.

Council has taken all practicable measures to review and modify policies, procedures and supports to include recognition of the carer relationship.

## Contracts

During the year Council did not enter into any contracts valued at \$150,000 or more without first engaging in a competitive process.

## Disability Action Plan

In accordance with section 38 of the *Disability Act 2006*, as Council has prepared a draft Disability Action Plan (known as the Towong Shire Access and Inclusion Plan). Council anticipates adopting the Plan early in 2017. Council will report on its implementation in next year's Annual Report.

## Domestic Animal Management Plan

In accordance with the *Domestic Animals Act 1994*, Council is required to prepare a Domestic Animal Management Plan at four yearly intervals and evaluate its implementation in the Annual Report. Council adopted its *Domestic Animal Management Plan 2013-2017* in September 2014.

The development of Council's *Domestic Animal Management Plan* was guided by the following principles:

- The belief that pets contribute to quality of life;
- A requirement to balance the needs of those who own pets and those who do not;
- Valuing responsible pet ownership;
- Proactive animal management and education within the community
- Protection of the environment from any negative impacts of dogs and cats;
- Working in partnership with others to achieve positive outcomes for the community; and
- Local Government plays a leadership role in animal management

Council's *Domestic Animal Management Plan* includes an Action Plan to assist Council to achieve the Plan's objectives over a four year period.

# Governance, management and other information

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## Food Act Ministerial Directions

In accordance with section 7E of the *Food Act 1984*, Council is required to publish a summary of any ministerial directions received during the financial year in its Annual Report. No such ministerial directions were received by Council during the financial year.

## Freedom of Information (Fol)

In accordance with section 7(4AA)(a) and 7(4AA)(b) of the *Freedom of Information Act 1982*, Council is required to publish certain statements in their Annual Report or separately (such as on its website) concerning its functions and information available.

Access to documents may be obtained through written request to the Freedom of Information Officer, as detailed in Section 17 of the *Freedom of Information Act 1982* and in summary as follows:

- It should be in writing;
- It should identify as clearly as possible which document is being requested; and
- It should be accompanied by the appropriate application fee (the fee may be waived in certain circumstances).

Access charges may also apply once documents have been processed and a decision on access is made (e.g. photocopying, search and retrieval charges). Further information regarding Fol can be found at [www.foi.vic.gov.au](http://www.foi.vic.gov.au) or on Council's website [www.towong.vic.gov.au](http://www.towong.vic.gov.au)

Four Freedom of Information applications were received by Council during the 2015/16 financial year.

## Protected Disclosure Procedures

In accordance with Section 69 of the *Protected Disclosure Act 2012* Council must include in their Annual Report information about how to access the procedures established by the Council under Part 9 of that Act. It is also required to provide certain information about the number and types of protected disclosures complaints investigated during the financial year.

The *Protected Disclosure Act 2012* aims to ensure openness and accountability in government by encouraging people to disclose improper conduct within the public sector and provide protection for people who make disclosures. Procedures on how to make a disclosure are publicly available on Council's website.

During the 2015/16 year no disclosures were notified to Council officers appointed to receive disclosures or to the Independent Broad-based Anti-corruption Commission (IBAC).

## Road Management Act Ministerial Direction

In accordance with section 22 of the *Road Management Act 2004* Council must publish a copy or summary of any ministerial direction in its Annual Report. No such ministerial directions were received by Council during the financial year.



# Performance Statement

<b>Sustainable Capacity Indicators</b>			
<i>Indicator/measure</i>	<b>Results 2015</b>	<b>Results 2016</b>	<b>Material Variations</b>
<b>Population</b> <i>Expenses per head of municipal population</i> [Total expenses / Municipal population]	\$2,247.46	\$2,241.41	No material variations.
<i>Infrastructure per head of municipal population</i> [Value of infrastructure / Municipal population]	\$29,344.81	\$30,647.34	Towong Shire has a small population base compared to its large infrastructure network. The roads and bridges network account for approximately 83% of the dollar value of Council's total infrastructure.
<i>Population density per length of road</i> [Municipal population / Kilometres of local roads]	4.98	4.97	No material variations.
<b>Own-source revenue</b> <i>Own-source revenue per head of municipal population</i> [Own-source revenue / Municipal population]	\$1,497.12	\$1,569.42	No material variations.
<b>Recurrent grants</b> <i>Recurrent grants per head of municipal population</i> [Recurrent grants / Municipal population]	\$1,406.04	\$751.48	The high 2015 result was due to receiving \$1.8million of the 2015/16 Financial Assistance Grants allocation from the Victorian Grants Commission in advance on 30 June 2015. This was expected to be received in 2015/16, hence the lower result in 2016.
<b>Disadvantage</b> <i>Relative Socio-Economic Disadvantage</i> [Index of Relative Socio-Economic Disadvantage by decile]	7	7	No material variations.
<b>Aquatic Facilities Utilisation</b> <i>Utilisation of aquatic facilities</i> [Number of visits to aquatic facilities / Municipal population]	1.13	2.27	Council operates two outdoor seasonal swimming pools. Improvements in recording pool usage were implemented for the 2015/16 season which resulted in more accurate usage data for 2015/16. As a result of these improvements an increase of 7,000 visits (to 13,000 visits) was recorded in 2015/16 compared to 2014/15.

# Performance Statement

Service Performance Indicators			
Service/ <i>indicator/measure</i>	Results 2015	Results 2016	Material Variations
<b>Animal Management</b> <b>Health and safety</b> <i>Animal management prosecutions</i> [Number of successful animal management prosecutions]	0	0	There were no animal prosecutions in 2015/16.
<b>Food Safety</b> <b>Health and safety</b> <i>Critical and major non-compliance outcome notifications</i> [Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises followed up / Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises] x100	100.00%	100.00%	All food premises that received a critical or major non-compliance outcome notification were followed up by Council in 2015/16.
<b>Governance</b> <b>Satisfaction</b> <i>Satisfaction with council decisions</i> [Community satisfaction rating out of 100 with how council has performed in making decisions in the interest of the community]	60	51	Council participated in the 2016 Community Satisfaction Survey in order to obtain this data. The survey was facilitated by the Department of Environment, Land, Water and Planning.
<b>Libraries</b> <b>Participation</b> <i>Active library members</i> [Number of active library members / Municipal population] x100	4.36%	9.25%	Council provided two static libraries in its main centres of Corryong and Tallangatta during 2015/16. These libraries service our small dispersed population of 5,762 (ABS Catalogue 3218.0) which is spread over 6,635 square kilometres. The low percentage reflects the fact that many residents reside outside the two main centres where the static libraries are located and may access other library services in neighbouring municipalities.

# Performance Statement

Service Performance Indicators (continued)			
Service/indicator/measure	Results 2015	Results 2016	Material Variations
<b>Maternal and Child Health (MCH)</b> <b>Participation</b> <i>Participation in the MCH service</i> [Number of children who attend the MCH service at least once (in the year) / Number of children enrolled in the MCH service] x100	100.00%	98.18%	There were 55 children enrolled in the Maternal and Child Health service for the year ending 30 June 2016 with only one child not attending during the year.
<b>Participation</b> <i>Participation in the MCH service by Aboriginal children</i> [Number of Aboriginal children who attend the MCH service at least once (in the year) / Number of Aboriginal children enrolled in the MCH service] x100	0.00%	0.00%	No children currently registered with the MCH service have identified as having an Aboriginal or Torres Strait Islander background.
<b>Roads</b> <b>Satisfaction</b> <i>Satisfaction with sealed local roads</i> [Community satisfaction rating out of 100 with how council has performed on the condition of sealed local roads]	59	54	Council participated in the 2016 Community Satisfaction Survey in order to obtain this data. The survey was facilitated by the Department of Environment, Land, Water and Planning.
<b>Statutory Planning</b> <b>Decision making</b> <i>Council planning decisions upheld at VCAT</i> [Number of VCAT decisions that did not set aside council's decision in relation to a planning application / Number of VCAT decisions in relation to planning applications] x100	33.33%	100.00%	There was one Council planning decision referred to VCAT for 2015/16. This Council decision was upheld at VCAT.
<b>Waste Collection</b> <b>Waste diversion</b> <i>Kerbside collection waste diverted from landfill</i> [Weight of recyclables and green organics collected from kerbside bins / Weight of garbage, recyclables and green organics collected from kerbside bins] x100	32.49%	32.32%	No material variations.

# Performance Statement

Financial Performance Indicators							
Dimension/ <i>indicator</i> /measure	Results		Forecast				Material Variations
	2015	2016	2017	2018	2019	2020	
<b>Efficiency</b> <b>Revenue level</b> <i>Average residential rate per residential property assessment</i> [Residential rate revenue / Number of residential property assessments]	\$1,258.49	\$1,326.10	\$1,355.77	\$1,426.08	\$1,499.40	\$1,578.13	This indicator provides the "Average rates and charges per residential property assessment (excluding the Fire Service Property Levy)". It includes General Rates, Municipal Charge, Service Rates and Service Charges. Council adopted a 5.70% increase on General Rates and Municipal Charge and a 6.0% increase on Service Rates and Charges for the 2015/16 financial year.
<b>Expenditure level</b> <i>Expenses per property assessment</i> [Total expenses / Number of property assessments]	\$3,011.59	\$2,937.23	\$3,167.16	\$3,239.99	\$3,317.12	\$3,415.97	No material variations.
<b>Workforce turnover</b> <i>Resignations and terminations compared to average staff</i> [Number of permanent staff resignations and terminations / Average number of permanent staff for the financial year] x100	7.04%	9.93%	5.26%	4.82%	4.82%	4.82%	Council has a small workforce of 68.3 full time equivalents (FTE) in the 2015/16 budget. Of these 61.7 FTE are ongoing positions. During 2015/16 seven staff (5.1 FTE) left Council's employment.

# Performance Statement

Financial Performance Indicators (continued)							
Dimension/ <i>indicator</i> /measure	Results		Forecasts				Material Variations
	2015	2016	2017	2018	2019	2020	
<b>Unrestricted cash</b> <i>Unrestricted cash compared to current liabilities</i> [Unrestricted cash / Current liabilities] x100	281.66%	287.21%	448.70%	387.31%	363.07%	365.48%	Council forecasts 100% of the capital program will be complete and that all grants received will be expended at 30 June each year in its Strategic Resource Plan (SRP). This means that all funds are deemed to be unrestricted at year end in the SRP.
<b>Liquidity</b> <b>Working capital</b> <i>Current assets compared to current liabilities</i>  [Current assets / Current liabilities] x100	633.48%	561.45%	512.89%	447.98%	423.30%	423.75%	The 2015 result was higher than expected due to receiving \$1.8 million of the 2015/16 Financial Assistance Grants allocation from the Victorian Grants Commission. This was expected to be received in 2015/16. The forecast reduction in this indicator from 2017 is due to Council forecasting that 100% of the capital program will be complete and that all grants received will be expended at 30 June each year in its Strategic Resource Plan.

# Performance Statement

Financial Performance Indicators (continued)							
Dimension/ <i>indicator/measure</i>	Results		Forecasts				Material Variations
	2015	2016	2017	2018	2019	2020	
<b>Obligations</b> <b>Asset renewal</b> <i>Asset renewal compared to depreciation</i> [Asset renewal expense / Asset depreciation] x100	76.64%	60.92%	190.36%	94.86%	100.44%	105.27%	Council's asset renewal strategy has been to renew 100% of assets that fall below the intervention level. The intervention levels have been set based on community expectations.  The large increase in 2017 is due to expending the increased funding from the Roads to Recovery program and delivery of the Destination Tallangatta project.
<b>Loans and borrowings</b> <i>Loans and borrowings compared to rates</i> [Interest bearing loans and borrowings / Rate revenue] x100	0.46%	0.46%	18.33%	15.85%	13.49%	11.24%	Council had \$34,000 of borrowings at 30 June 2016. The increase in 2017 is due to Council's intention to take out a loan to complete a significant infrastructure project.

# Performance Statement

Financial Performance Indicators (continued)							
Dimension/ <i>indicator</i> /measure	Results		Forecasts				Material Variations
	2015	2016	2017	2018	2019	2020	
<i>Loans and borrowings repayments compared to rates</i> [Interest and principal repayments on interest bearing loans and borrowings / Rate revenue] x100	4.64%	0.11%	2.70%	2.54%	2.42%	2.28%	There were two finance leases paid out in 2015 for plant. These plant items have subsequently been added to Council's fixed asset register. The increase in 2017 is due to Council's intention to take out a loan to complete a significant infrastructure project.
<b>Indebtedness</b> <i>Non-current liabilities compared to own source revenue</i> [Non-current liabilities / Own source revenue] x100	5.97%	7.44%	16.31%	14.32%	12.37%	10.62%	In 2016/17, Council has budgeted to take out new borrowings of \$493,000 to fund a significant intergenerational capital project. In addition, and subject to securing other government funding, new borrowings have been budgeted to deliver significant economic development infrastructure in the Upper Murray.

# Performance Statement

Financial Performance Indicators (continued)							
Dimension/ <i>indicator</i> /measure	Results		Forecasts			Material Variations	
	2015	2016	2017	2018	2019		
<b>Operating position</b> <b>Adjusted underlying result</b> Adjusted underlying surplus (or deficit) [Adjusted underlying surplus (deficit)/ Adjusted underlying revenue] x100	26.57%	8.64%	12.63%	2.89%	4.05%	(0.21%)	The high 2015 result was due to receiving \$1.8million of the 2015/16 Financial Assistance Grants allocation from the Victorian Grants Commission in advance on 30 June 2015. This resulted in the adjusted underlying revenue and adjusted underlying result being \$1.8million higher than would otherwise have been. This was expected to be received in 2015/16. If this prepayment was not received and was paid in the year it related, the results for this indicator would have been 18.44% for 2015 and 18.95% for 2016.



# Performance Statement

Financial Performance Indicators (continued)							
Dimension/ <i>indicator</i> /measure	Results		Forecasts				Material Variations
	2015	2016	2017	2018	2019		
<b>Stability</b> <b>Rates concentration</b> <i>Rates compared to adjusted underlying revenue</i> [Rate revenue / Adjusted underlying revenue] x100	38.78%	52.59%	47.87%	54.97%	56.08%	60.14%	The low 2015 result was due to receiving \$1.8million of the 2015/16 Financial Assistance Grants allocation from the Victorian Grants Commission in advance on 30 June 2015. This resulted in the adjusted underlying revenue being \$1.8million higher than would otherwise have been as this was expected to be received in 2016. If this prepayment was not received and paid in the year it related, the results would have been 43.08% for 2015 and 46.65% for 2016.
<b>Rates effort</b> <i>Rates compared to property values</i> [Rate revenue / Capital improved value of rateable properties in the municipality] x100	0.53%	0.56%	0.56%	0.59%	0.63%	0.66%	No material variations.

# Performance Statement

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## Basis of preparation

Council is required to prepare and include a Performance Statement within its annual report. The Performance Statement includes the results of the prescribed sustainable capacity, service performance and financial performance indicators and measures together with a description of the municipal district and an explanation of material variations in the results. This statement has been prepared to meet the requirements of the *Local Government Act 1989* and *Local Government (Planning and Reporting) Regulations 2014*.

Where applicable the results in the Performance Statement have been prepared on accounting bases consistent with those reported in the Financial Statements. The other results are based on information drawn from Council information systems or from third parties (e.g. Australian Bureau of Statistics).

The Performance Statement presents the actual results for the current year and forecast by Council's Strategic Resource Plan for the prescribed financial performance indicators and measures. The *Local Government (Planning and Reporting) Regulations 2014* requires explanation of any material variations in the results contained in the performance statement. Council has adopted materiality thresholds relevant to each indicator and measure and explanations have not been provided for variations below the materiality thresholds unless the variance is considered to be material because of its nature.

The forecast figures included in the Performance Statement are those adopted by Council in its Strategic Resource Plan on 2 August 2016 which forms part of the Council Plan. The Strategic Resource Plan includes estimates based on key assumptions about the future that were relevant at the time of adoption and aimed at achieving sustainability over the long term. Detailed information on the actual financial results is contained in the General Purpose Financial Statements. The Strategic Resource Plan can be obtained by visiting Council's website [www.towong.vic.gov.au](http://www.towong.vic.gov.au) or is available for viewing at the Tallangatta or Corryong offices.

# Performance Statement

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## Certification of the Performance Statement

In my opinion, the accompanying Performance Statement has been prepared in accordance with the Local Government Act 1989 and the Local Government (Planning and Reporting) Regulations 2014.

*Mr Blair Phillips, Certified Practicing Accountant*

**Principal Accounting Officer**

Tuesday 20 September 2016

In our opinion, the accompanying Performance Statement of Towong Shire Council for the year ended 30 June 2016 presents fairly the results of Council's performance in accordance with the Local Government Act 1989 and the Local Government (Planning and Reporting) Regulations 2014.

The Performance Statement contains the relevant performance indicators, measures and results in relation to service performance, financial performance and sustainable capacity.

At the date of signing, we are not aware of any circumstances that would render any particulars in the performance statement to be misleading or inaccurate.

We have been authorised by the council and by the Local Government (Planning and Reporting) Regulations 2014 to certify this Performance Statement in its final form.

*Cr Aaron Scales*

**Deputy Mayor**

Tuesday 20 September 2016

*Cr Debi Gadd*

**Councillor**

Tuesday 20 September 2016

*Ms Juliana Phelps, Chartered Accountant*

**Chief Executive Officer**

Tuesday 20 September 2016

# Performance Statement

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## Auditor-General's Report

**VAGO**

Victorian Auditor-General's Office

Level 24, 35 Collins Street  
Melbourne VIC 3000  
Telephone 61 3 8601 7000  
Facsimile 61 3 8601 7010  
Email [comments@audit.vic.gov.au](mailto:comments@audit.vic.gov.au)  
Website [www.audit.vic.gov.au](http://www.audit.vic.gov.au)

### INDEPENDENT AUDITOR'S REPORT

#### To the Councillors, Towong Shire Council

##### *The Performance Statement*

I have audited the accompanying performance statement for the year ended 30 June 2016 of the Towong Shire Council which comprises the statement, the related notes and the certification of the performance statement.

##### *The Councillors' Responsibility for the Performance Statement*

The Councillors of the Towong Shire Council are responsible for the preparation and fair presentation of the performance statement in accordance with the *Local Government Act 1989* and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the performance statement that is free from material misstatement, whether due to fraud or error.

##### *Auditor's Responsibility*

As required by the *Local Government Act 1989*, my responsibility is to express an opinion on the performance statement based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the performance statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the performance statement. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the performance statement, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the performance statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the overall presentation of the performance statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

# Performance Statement

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## Independent Auditor's Report (continued)

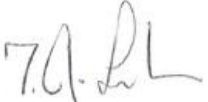
### *Independence*

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, I and my staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

### *Auditor's Opinion*

In my opinion, the performance statement of the Towong Shire Council in respect of the 30 June 2016 financial year presents fairly, in all material respects, in accordance with the *Local Government Act 1989*.

MELBOURNE  
27 September 2016

  
Andrew Greaves  
Auditor-General

# Financial Statements

## For the year ending 30 June 2016

### Comprehensive Income Statement for the year ending 30 June 2016

	Note	2016 \$'000	2015 \$'000
<b>Income</b>			
Rates and charges	3	7,481	7,042
Statutory fees and fines	4	172	176
User fees	5	463	623
Grants – operating	6	3,166	7,111
Grants – capital	6	2,244	3,555
Net gain/ (loss) on disposal of property, infrastructure, plant and equipment	7	35	8
Share of net profit/(loss) of joint arrangements	15	(14)	-
Other income	8	906	978
<b>Total income</b>		<b>14,453</b>	<b>19,493</b>
<b>Expenses</b>			
Employee costs and benefits	9	4,922	5,009
Materials and services	11	4,116	4,622
Depreciation	12	3,536	3,287
Borrowing costs	13	10	17
Other expenses	14	331	316
<b>Total expenses</b>		<b>12,915</b>	<b>13,251</b>
<b>Surplus/(Deficit)</b>		<b>1,538</b>	<b>6,242</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to surplus or deficit in future periods</b>			
Net asset revaluation increment/(decrement)	26	1,340	-
<b>Comprehensive result</b>		<b>2,878</b>	<b>6,242</b>

The above comprehensive income statement should be read in conjunction with the accompanying notes.

# Financial Statements

## For the year ending 30 June 2016

### Balance Sheet as at 30 June 2016

	Note	2016 \$'000	2015 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	16	2,076	8,675
Trade and other receivables	17	1,085	1,066
Other financial assets	18	9,005	2,836
Inventories	19	301	253
Other assets	20	42	17
<b>Total current assets</b>		<b>12,509</b>	<b>12,847</b>
<b>Non-current assets</b>			
Trade and other receivables	17	153	185
Investments in joint arrangements	15	21	-
Property, infrastructure, plant and equipment	21	181,895	178,322
<b>Total non-current assets</b>		<b>182,069</b>	<b>178,507</b>
<b>Total assets</b>		<b>194,578</b>	<b>191,354</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	22	818	660
Trust funds and deposits	23	297	276
Provisions	24	1,113	1,092
Interest bearing loans and borrowings		-	-
<b>Total current liabilities</b>		<b>2,228</b>	<b>2,028</b>
<b>Non-current liabilities</b>			
Provisions	24	639	495
Interest-bearing loans and borrowings	25	34	32
<b>Total non-current liabilities</b>		<b>673</b>	<b>527</b>
<b>Total liabilities</b>		<b>2,901</b>	<b>2,555</b>
<b>Net Assets</b>		<b>191,677</b>	<b>188,799</b>
<b>Equity</b>			
Accumulated surplus		79,924	78,386
Reserves	26	111,753	110,413
<b>Total Equity</b>		<b>191,677</b>	<b>188,799</b>

The above balance sheet should be read in conjunction with the accompanying notes.

# Financial Statements

## For the year ending 30 June 2016

### Statement of Changes in Equity for the year ending 30 June 2016

	Note	2016 \$'000	2015 \$'000
Accumulated Surplus			
Balance at beginning of the financial year		78,386	72,144
Surplus		1,538	6,242
Balance at end of the financial year		79,924	78,386
Asset Revaluation Reserve			
Balance at beginning of the financial year		110,413	110,413
Net asset revaluation increment/(decrement)	26	1,340	-
Balance at end of the financial year		111,753	110,413
Total			
Balance at beginning of the financial year		188,799	182,557
Surplus		1,538	6,242
Net asset revaluation increment/(decrement)	26	1,340	-
<b>Balance at end of the financial year</b>		<b>191,677</b>	<b>188,799</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes.



# Financial Statements

## For the year ending 30 June 2016

### Statement of Cash Flows for the year ending 30 June 2016

	Note	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Rates and charges		7,399	6,958
Statutory fees and fines		172	176
User fees		463	623
Grants – operating		3,166	7,111
Grants – capital		2,244	3,555
Interest		334	316
Other receipts		567	885
Trust funds and deposits		21	78
Payments to suppliers		(4,146)	(5,010)
Payments to employees		(4,873)	(4,914)
<b>Net cash provided by (used in) operating activities</b>	27	<b>5,347</b>	<b>9,778</b>
<b>Cash flows from investing activities</b>			
Payments for property, infrastructure, plant and equipment	21	(5,774)	(5,908)
Proceeds from sale of property, infrastructure, plant and equipment	7	40	78
Payments for investments (in joint arrangements)	15	(35)	-
(Increase)/ decrease in investments		(6,169)	(2,836)
<b>Net cash provided by (used in) investing activities</b>		<b>(11,938)</b>	<b>(8,666)</b>
<b>Cash flows from financing activities</b>			
Finance costs		(10)	(17)
Repayment of interest bearing loans and borrowings		2	(308)
<b>Net cash provided by (used in) financing activities</b>		<b>(8)</b>	<b>(325)</b>
Net increase/ (decrease) in cash and cash equivalents		<b>(6,599)</b>	<b>787</b>
Cash and cash equivalents at the beginning of the financial year		8,675	7,888
<b>Cash and cash equivalents at the end of the financial year</b>	16	<b>2,076</b>	<b>8,675</b>
Financing arrangements	28		
Restrictions on cash assets	16		

The above statement of cash flows should be read in conjunction with the accompanying notes.

# Financial Statements

## For the year ending 30 June 2016

### Statement of Capital Works for the year ending 30 June 2016

	Note	2016 \$'000	2015 \$'000
<b>Property</b>			
Buildings		3,944	352
<b>Total Buildings</b>		<b>3,944</b>	<b>352</b>
<b>Total Property</b>		<b>3,944</b>	<b>352</b>
<b>Plant and equipment</b>			
Plant, machinery and equipment		109	459
Fixtures, fittings and equipment		39	62
Library books		40	-
<b>Total plant and equipment</b>		<b>188</b>	<b>521</b>
<b>Infrastructure</b>			
Roads		1,760	2,195
Bridges		114	664
Footpaths and cycleways		14	132
Drainage		91	94
Kerb and channel		84	48
Landfill		116	511
Other infrastructure		259	24
<b>Total infrastructure</b>		<b>2,438</b>	<b>3,668</b>
<b>Total capital works expenditure</b>		<b>6,570</b>	<b>4,541</b>
<b>Represented by:</b>			
New asset expenditure		2,918	1,141
Asset renewal expenditure		2,154	2,519
Asset upgrade expenditure		1,378	881
Asset expansion expenditure		120	-
<b>Total capital works expenditure</b>		<b>6,570</b>	<b>4,541</b>

The above statement of capital works should be read in conjunction with the accompanying notes.

# Financial Statements

## For the year ending 30 June 2016

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### Notes to the Financial Statements for the year ending 30 June 2016

#### Introduction

Towong Shire Council was established by an Order of the Governor in Council on 18 November 1994 and is a body corporate.

The Council's main office is located at 32 Towong Street, Tallangatta, Victoria.

#### Statement of compliance

These financial statements are a general purpose financial report that consists of a Comprehensive Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, Statement of Capital Works and Notes accompanying these financial statements. The general purpose financial report complies with Australian Accounting Standards (AAS), other authoritative pronouncements of the Australian Accounting Standards Board (AASB), the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014*.

#### Note 1. Significant accounting policies

##### a) Basis of accounting

The accrual basis of accounting has been used in the preparation of these financial statements, whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated judgements are based on professional judgement derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of AAS that have significant effects on the financial statements and estimates relate to the:

- recognition and measurement of property, plant and equipment, infrastructure and other assets (refer to Note 1 (l));
- determination of depreciation and amortisation of property, plant and equipment, infrastructure and other assets (refer to Note 1 (m)); and
- the determination of employee costs and benefits (refer to Note 1 (r)).

Unless otherwise stated, all accounting policies are consistent with those applied in the prior year. Where appropriate, comparative figures have been amended to accord with current presentation and disclosure has been made of any material changes to comparatives.

##### b) Change in accounting policies

There have been no changes in accounting policies from the previous period.

# Financial Statements

## For the year ending 30 June 2016

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### c) Principles of consolidation

Subsidiaries are all entities over which Council has control. Council controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Council. They are deconsolidated from the date that control ceases.

Council had no controlled entities for this reporting period.

### d) Committees of management

All entities controlled by Council that have material revenues, expenses, assets or liabilities, such as committees of management, have been included in this financial report. Any transactions between these entities and Council have been eliminated in full.

### e) Accounting for investments in joint arrangements

#### *Joint arrangements*

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement.

#### (i) Joint operations

Council recognises its direct right to, and its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate headings.

#### (ii) Joint ventures

Interests in joint ventures are accounted for using the equity method. Under this method, the interests are initially recognised in the balance sheet at cost and adjusted thereafter to recognise Council's share of the post-acquisition profits or losses and movements in other comprehensive income in profit or loss and other comprehensive income respectively.

MomentumOne Shared Services Pty Ltd was established on 29 October 2015 as a joint venture between Alpine Shire and Towong Shire Council with each Council holding a 50% share in the company and will also have a 50% share of the post-acquisition profits or losses. It will be treated per Note 1e(ii). Also refer to Note 15.

### f) Revenue recognition

Income is recognised when the Council obtains control of the contribution or the right to receive the contribution, it is probable that the economic benefits comprising the contribution will flow to the Council and the amount of the contribution can be measured reliably.

#### *Rates and Charges*

Annual rates and charges are recognised as revenues when Council issues annual rates notices. Supplementary rates are recognised when a valuation and reassessment is completed and a supplementary rates notice issued.

# Financial Statements

## For the year ending 30 June 2016

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### *Statutory fees and fines*

Statutory fees and fines are recognised as revenue when the service has been provided, the payment is received, or when the penalty has been applied, whichever occurs first.

### *User fees*

User fees are recognised as revenue when the service has been provided or the payment is received, whichever occurs first.

### *Grants*

Grant income is recognised as revenue when Council obtains control of the contribution. This is normally obtained upon their receipt (or acquittal) or upon earlier notification that a grant has been secured and they are valued at their fair value at the date of transfer.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were undischarged at balance date, the unused grant or contribution is disclosed in Note 6. The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

### *Contributions*

Monetary and non monetary contributions are recognised as revenue when Council obtains control over the contributed asset.

### *Sale of property, infrastructure, plant and equipment*

The profit or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer.

### *Interest*

Interest is recognised as it is earned.

### *Other Income*

Other income is measured at the fair value of the consideration received or receivable and is recognised when Council gains control over the right to receive the income.

A provision for doubtful debts is recognised when collection in full is no longer probable.

## **g) Fair value measurement**

Council measures certain assets and liabilities at fair value where required or permitted by Australian Accounting Standards. AASB 13 Fair Value Measurement aims to improve consistency and reduce complexity by providing a definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards.

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

# Financial Statements

## For the year ending 30 June 2016

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All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, Council has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In addition, Council determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### **h) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits at call, and other highly liquid investments with original maturities of 90 days or less, net of outstanding bank overdrafts.

### **i) Trade and other receivables**

Receivables are carried at amortised cost using the effective interest rate method. A provision for doubtful debts is recognised when there is objective evidence that impairment has occurred.

### **j) Other financial assets**

Other financial assets are valued at fair value, being market value, at balance date. Term deposits are measured at amortised cost. Other financial assets include term deposits with an original maturity of greater than three months. Any unrealised gains and losses on holdings at balance date are recognised as either a revenue or expense.

### **k) Inventories**

Inventories held for distribution are measured at cost adjusted when applicable for any loss of service potential. Inventories are measured at the lower of cost and net realisable value.

### **l) Recognition and measurement of property, plant and equipment, infrastructure and other assets**

#### *Acquisition*

The purchase method of accounting is used for all acquisitions of assets, being the fair value of assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition. Fair value is the amount for which the asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

# Financial Statements

## For the year ending 30 June 2016

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Where assets are constructed by Council, cost includes all materials used in construction, direct labour, borrowing costs incurred during construction, and an appropriate share of directly attributable variable and fixed overheads.

In accordance with Council's policy, the threshold limits detailed in Note 1 (m) have been applied when recognising assets within an applicable asset class and unless otherwise stated are consistent with the prior year.

### *Revaluation*

Subsequent to the initial recognition of assets, non-current physical assets, other than plant and equipment, are measured at their fair value, being the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. At balance date, the Council reviewed the carrying value of the individual classes of assets measured at fair value to ensure that each asset materially approximated its fair value. Where the carrying value materially differed from the fair value at balance date, the class of asset was revalued.

Fair value valuations are determined in accordance with a valuation hierarchy. Changes to the valuation hierarchy will only occur if an external change in the restrictions or limitations of use on an asset result in changes to the permissible or practical highest and best use of the asset. Further details regarding the fair value hierarchy are disclosed at Note 21 - Property, infrastructure, plant and equipment.

In addition, Council undertakes a formal revaluation of land, buildings and infrastructure assets within a 5 year cycle. The valuation is performed by experienced council officers or independent experts.

Where assets are revalued, the revaluation increments are credited directly to the asset revaluation reserve except to the extent that an increment reverses a prior year decrement for that class of asset that had been recognised as an expense in which case the increment is recognised as revenue up to the amount of the expense. Revaluation decrements are recognised as an expense except where prior increments are included in the asset revaluation reserve for that class of asset in which case the decrement is taken to the reserve to the extent of the remaining increments. Within the same class of assets, revaluation increments and decrements within the year are offset.

### *Land under roads*

Council recognises land under roads it controls at fair value.

### **m) Depreciation and amortisation of property, plant and equipment, infrastructure and other assets**

Property, plant and equipment, infrastructure and other assets having limited useful lives are systematically depreciated over their useful lives to Council in a manner which reflects consumption of the service potential embodied in those assets. Estimates of remaining useful lives and residual values are made on a regular basis with major asset classes reassessed annually. Depreciation rates and methods are reviewed annually.

Where assets have separate identifiable components that are subject to regular replacement, these components are assigned distinct useful lives and residual values and a separate depreciation rate is determined for each component.

# Financial Statements

## For the year ending 30 June 2016

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Road earthworks are not depreciated on the basis that they are assessed as not having a limited useful life.

Straight line depreciation is charged based on the residual useful life as determined each year. Major depreciation periods used are listed below and are consistent with the prior year unless otherwise stated:

	2016	2015
Buildings		
buildings	50 years	50 years
Plant and Equipment		
vehicles	5 years	5 years
trucks (less than 3.5 t)	12 years	12 years
trucks (greater than 3.5 t)	15 years	15 years
front end loaders, backhoes and tractors	9 years	9 years
graders and dozers	10 years	10 years
rollers	15 years	15 years
mowers	5 years	5 years
trailers (less than 4.5 t)	10 years	10 years
trailers (greater than 4.5 t)	15 years	15 years
other plant	10 years	10 years
minor tools	3 years	3 years
Machinery		
office furniture and telecommunications	3 years	3 years
Infrastructure		
Roads		
sealed pavements	70 years	70 years
unsealed pavements	30 years	30 years
footpaths	68 years	68 years
kerb and channel	90 years	90 years
guardrail	40 years	40 years
Bridges		
bridges	119 years	119 years
added features	80 years	80 years
Drainage		
underground drainage	120 years	120 years

In accordance with Council's policy, the threshold limits detailed below have applied when recognising assets within an applicable asset class and unless otherwise stated are consistent with the prior year:

Threshold limit	2016 \$'000	2015 \$'000
Land	Nil	Nil
Buildings	5	5
Plant and equipment	1	1
Infrastructure	10	10



# Financial Statements

## For the year ending 30 June 2016

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### **n) Repairs and maintenance**

Routine maintenance, repair costs, and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold the cost is capitalised and depreciated. The carrying value of the replaced asset is expensed.

### **o) Impairment of assets**

At each reporting date, Council reviews the carrying value of its assets to determine whether there is any indication that these assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the comprehensive income statement, unless the asset is carried at the revalued amount in which case, the impairment loss is recognised directly against the revaluation surplus in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same class of asset.

### **p) Trust funds and deposits**

Amounts received as deposits and retention amounts controlled by Council are recognised as trust funds until they are returned, transferred in accordance with the purpose of the receipt, or forfeited (refer to Note 23).

### **q) Borrowings**

Borrowings are initially measured at fair value, being the cost of the interest bearing liabilities, net of transaction costs. The measurement basis subsequent to initial recognition depends on whether Council has categorised its interest-bearing liabilities as either financial liabilities designated at fair value through the profit and loss, or financial liabilities at amortised cost. Any difference between the initial recognised amount and the redemption value is recognised in the net result over the period of the borrowing using the effective interest method.

The classification depends on the nature and purpose of the interest bearing liabilities. Council determines the classification of its interest bearing liabilities at initial recognition.

#### *Borrowing costs*

Borrowing costs are recognised as an expense in the period in which they are incurred, except where they are capitalised as part of a qualifying asset constructed by Council. The weighted average interest rate applicable to borrowings at balance date, excluding borrowings associated with superannuation, is used to determine the borrowing costs to be capitalised, except where specific borrowings are obtained for the purpose of specific asset acquisition.

Borrowing costs include interest on bank overdrafts, interest on borrowings, and finance lease charges.

# Financial Statements

## For the year ending 30 June 2016

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### r) Employee costs and benefits

The calculation of employee costs and benefits includes all relevant on-costs and are calculated as follows at reporting date.

#### *Wages and salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave expected to be wholly settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employee services up to the reporting date, classified as current liabilities and measured at their nominal values.

Liabilities that are not expected to be wholly settled within 12 months of the reporting date are recognised in the provision for employee benefits as current liabilities, measured at present value of the amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

#### *Long service leave*

Liability for long service leave (LSL) is recognised in the provision for employee benefits. Current Liability - unconditional LSL is disclosed as a current liability even when the council does not expect to settle the liability within 12 months because it will not have the unconditional right to defer settlement of the entitlement should an employee take leave within 12 months.

The components of this current liability are measured at:

- Present value - component that is not expected to be wholly settled within 12 months; or
- Nominal value - component that is expected to be wholly settled within 12 months

Conditional LSL that has been accrued, where an employee is yet to reach a qualifying term of employment, is disclosed as a non-current liability. There is an unconditional right to defer settlement of the entitlement until the employee has completed the requisite years of service.

This non-current LSL liability is measured at present value.

### s) Landfill rehabilitation provision

Council is obligated to restore landfill sites to a particular standard. The forecast life of the site is based on current estimates of remaining capacity and the forecast rate of infill. The provision for landfill restoration has been calculated based on the present value of the expected cost of works to be undertaken. The expected cost of works has been estimated based on current understanding of work required to reinstate the site to a suitable standard.

Accordingly, the estimation of the provision required is dependent on the accuracy of the forecast timing of the work, work required and related costs.

# Financial Statements

## For the year ending 30 June 2016

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### t) Leases

#### *Operating Leases*

Lease payments for operating leases are required by AASB 117 Leases to be recognised on a straight line basis, rather than expensed in the years in which they are incurred.

### u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables in the Balance Sheet are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

### v) Contingent assets and contingent liabilities and commitments

Contingent assets and contingent liabilities are not recognised in the Balance Sheet, but are disclosed by way of a note and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

Commitments are not recognised in the Balance Sheet. Commitments are disclosed at their nominal value by way of note and presented exclusive of the GST payable.

### w) Rounding

Unless otherwise stated, amounts in the financial report have been rounded to the nearest thousand dollars. Figures in the financial statements may not equate due to rounding.

### x) Pending accounting standards

Certain new AAS have been issued that are not mandatory for the 30 June 2016 reporting period. Council has assessed these pending standards and has identified that no material impact will flow from the application of these standards in future reporting periods.

## Note 2. Budget comparison

The budget comparison note compares Council's financial plan, expressed through its annual budget, with actual performance. The Local Government (Planning and Reporting) Regulations 2014 requires explanation of any material variances. Council has adopted a materiality threshold of \$100,000 or 10% where further explanation is warranted. Explanations have not been provided for variations below the materiality threshold unless the variance is considered to be material because of its nature. Positive variances are favourable to Council's financial position whilst negative variances are unfavourable to Council's financial position.

The budget figures detailed below are those adopted by Council on 2 June 2015. The Budget was based on assumptions that were relevant at the time of adoption of the Budget. Council sets guidelines and parameters for revenue and expense targets in this budget in order to meet Council's planning and financial performance targets for both the short and long-term.

# Financial Statements

## For the year ending 30 June 2016

The budget did not reflect any changes to equity resulting from asset revaluations, as their impacts were not considered predictable.

These notes are prepared to meet the requirements of the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014*.

### a) Income and expenditure

	Actual 2016 \$'000	Budget 2016 \$'000	Variance		Ref
			\$'000	%	
<b>Income</b>					
Rates and charges	7,481	7,477	4	1%	
Statutory fees and fines	172	161	11	7%	
User fees	463	464	(1)	(1%)	
Grants – operating	3,166	4,571	(1,405)	(31%)	1
Grants – capital	2,244	1,795	(449)	25%	2
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	35	-	35	100%	3
Share of net profits/(loss) of associates	(14)	-	(14)	100%	4
Other income	906	612	294	48%	5
<b>Total income</b>	<b>14,453</b>	<b>15,080</b>	<b>(627)</b>	<b>(4%)</b>	
<b>Expenses</b>					
Employee costs and benefits	4,922	5,774	852	15%	6
Materials and services	4,116	4,308	192	4%	7
Depreciation and amortisation	3,536	3,530	(6)	(1%)	
Borrowing costs	10	53	43	81%	8
Other expenses	331	354	23	6%	
<b>Total expenses</b>	<b>12,915</b>	<b>14,019</b>	<b>1,104</b>	<b>8%</b>	
<b>Surplus/ (deficit) for the year</b>	<b>1,538</b>	<b>1,061</b>	<b>477</b>	<b>45%</b>	

### Explanation of material variations

Ref	Item	Explanation
1	Grants operating	<p>\$1,826,451 of the Victorian Grants Commission (VGC) 2015/16 allocation of Financial Assistance Grants was received in the prior financial year (30 June 2015). It had been budgeted to be received in 2015/16.</p> <p>Council received revenue that was not budgeted in 2015/16 being \$222,500 from Regional Development Victoria for the Wyeboo Multi Purpose Facility as well as \$100,000 for the "My Family First Pilot Program."</p>

# Financial Statements

## For the year ending 30 June 2016

Ref	Item	Explanation
2	Grants capital	<p>Roads to Recovery funding of \$1.92 million has been received during the 2015/16 financial year. This is \$575,000 higher than budget. This is in line with the new four year funding program.</p> <p>Council is yet to receive the final funding instalment of \$100,000 (\$50,000 from Sustainability Victoria and \$50,000 from Regional Development Victoria) for the Tallangatta Integrated Community Centre. This is anticipated to be received in the first quarter of 2016/17 due to delays in construction.</p>
3	Net gain/(loss) on disposal of property, infrastructure, plant and equipment	Gain on sales of plant and equipment was not budgeted.
4	Share of net profits/ (loss) of associates	Share of net profits/ (loss) of associates was not budgeted as the entity was not established at the time the budget was prepared.
5	Other income	<p>Interest on investments was \$113,000 above budget due to grant funding for large projects being held due to delays in construction as well as the prepayment of VGC grants in item 1 – Grants Operating.</p> <p>Community contributions for the Wyeboo Multi Purpose Facility (\$90,000) and Attree Park playground (\$40,000) were unbudgeted in 2015/16.</p>
6	Employee costs and benefits	There were several positions budgeted in 2015/16 which were not filled and a number of positions remained vacant longer than expected whilst employees were recruited.
7	Materials and services	<p>The major items contributing to the variance include:</p> <ul style="list-style-type: none"> <li>- \$190,000 was budgeted to be spent on The Narrows Project. Timelines have been revised for the project with this expenditure to be incurred in 2016/17.</li> <li>- \$148,000 budgeted for the Corryong Tennis Court upgrade will be spent in 2016/17 with works set to commence in September 2016.</li> <li>- \$104,000 saving against budget for delivery of kerbside collection due to higher plant utilisation rate.</li> </ul>
8	Borrowing costs	The 2015/16 budget provided for a loan to be taken out to fund the underground power lines in Tallangatta. This will likely be taken out in 2016/17 as part of the Destination Tallangatta project.

# Financial Statements

## For the year ending 30 June 2016

### b) Capital works

	Actual	Budget	Variance		Ref
	2016 \$'000	2016 \$'000	\$'000	%	
<b>Property</b>					
Buildings	3,944	3,518	(426)	(12%)	1
<b>Total buildings</b>	<b>3,944</b>	<b>3,518</b>	<b>(426)</b>	<b>(12%)</b>	
<b>Total property</b>	<b>3,944</b>	<b>3,518</b>	<b>(426)</b>	<b>(12%)</b>	
<b>Plant and equipment</b>					
Plant, machinery and equipment	109	539	430	80%	2
Fixtures, fittings and furniture	-	-	-	-	
Library books	40	20	(20)	(100%)	3
Computers and telecommunications	39	66	27	41%	4
<b>Total plant and equipment</b>	<b>188</b>	<b>625</b>	<b>437</b>	<b>70%</b>	
<b>Infrastructure</b>					
Roads	1,760	2,342	582	25%	5
Bridges	114	20	(94)	(470%)	6
Footpaths and cycleways	14	345	331	96%	7
Drainage	91	30	(61)	(203%)	8
Parks, open space and streetscapes	39	163	124	76%	9
Landfill	116	-	(116)	(100%)	10
Other infrastructure	304	687	383	56%	11
<b>Total infrastructure</b>	<b>2,438</b>	<b>3,587</b>	<b>1,149</b>	<b>32%</b>	
<b>Total capital works expenditure</b>	<b>6,570</b>	<b>7,730</b>	<b>1,160</b>	<b>15%</b>	
<b>Represented by:</b>					
New asset expenditure	2,918	3,137	219	7%	
Asset renewal expenditure	2,154	3,258	1,104	34%	
Asset upgrade expenditure	1,378	1,335	(43)	(3%)	
Asset expansion expenditure	120	-	(120)	(100%)	
<b>Total capital works expenditure</b>	<b>6,570</b>	<b>7,730</b>	<b>1,160</b>	<b>15%</b>	

# Financial Statements

## For the year ending 30 June 2016

### Explanation of material variations

Ref	Item	Explanation
1	Buildings	Buildings and building improvement works that were expected to be completed in 2015/16 that will be carried forward into 2016/17 include the Tallangatta Holiday Park (\$300,000) and the Corryong Swimming Pool upgrade (\$300,000).  The major projects contributing to the \$426,000 variance include: - \$588,000 budgeted for "Our Bellbridge" in the streetscape category has been categorised under the buildings category - \$222,000 for the Tallangatta Integrated Community Centre - \$120,000 for the Bellbridge Community Centre (budgeted for completion in 2014/15) - \$101,000 for the Colac Colac Caravan park residence (capital works brought forward from future years into 2015/16).
2	Plant and equipment	The Finance System upgrade (\$200,000) and Wireless Infrastructure Project (\$300,000) will be carried forward to 2016/17.
3	Library books	An additional \$20,000 for library books was agreed to by Council at Council's ordinary meeting on 1 December 2015.
4	Computers	Underground cabling not carried out in 2015/16 and will be carried forward to 2016/17.
5	Roads	Works on Georges Creek Road (\$404,000) and Shellwy-Walwa Road (\$100,000) will be carried forward to 2016/17.
6	Bridges	Additional bridge works have been carried out using the remaining funding from the Country Roads and Bridges program.
7	Footpaths and cycleways	\$325,000 of budgeted footpath works will be carried forward to 2016/17 as part of the Destination Tallangatta project.
8	Drainage	\$75,000 budgeted for "Our Bellbridge" in the streetscape category has been categorised under the drainage category.
9	Parks, open spaces and streetscapes	The Towong Street redevelopment project (\$80,000) and signage, town entry and street furniture projects (\$80,000) will be carried forward to 2016/17 as part of Destination Tallangatta.
10	Landfill	There was a \$116,000 increase in the landfill rehabilitation provision for 2015/16.
11	Other infrastructure	The Towong Street underground power project (\$493,000) will be carried forward to 2016/17.

# Financial Statements

## For the year ending 30 June 2016

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Note: The projects listed below are being carried forward into 2016/17 due to them being part of the Destination Tallangatta project which is part funded by the National Stronger Regions Funding.

- Tallangatta Holiday Park - \$300,000
- Tallangatta streetscape - \$112,000
- Kerb replacement program - \$70,000
- Towong Street underground power - \$493,000



# Financial Statements

## For the year ending 30 June 2016

### Note 3. Rates and charges

Council uses capital improved value (CIV) as the basis of valuation of all properties within the municipal district. The CIV of a property is the value of the land and capital improvements on the land.

The valuation base used to calculate general rates for 2015/16 was \$1,331 million (2014/15 \$1,318 million). The 2015/16 rate in the CIV dollar was 0.3777 cents to 1.5109 cents (2014/15, 0.3574 cents to 1.4296 cents).

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Residential general rates	1,165	1,090
Business general rates	142	131
Rural Residential general rates	857	801
Rural general rates	3,056	2,888
Undeveloped residential general rates	87	93
Municipal charge	987	928
Garbage charge	754	707
Waste Management charge	386	361
Revenue in lieu of rates	47	43
<b>Total rates and charges</b>	<b>7,481</b>	<b>7,042</b>

The date of the latest general revaluation of land for rating purposes within the municipal district was 1 January 2016, and the valuation will be first applied in the rating year commencing 1 July 2016.

### Note 4. Statutory fees and fines

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Infringements and costs	-	8
Land information certificates	6	4
Health registration fees	28	30
Permits	104	99
Town planning fees	34	35
<b>Total statutory fees and fines</b>	<b>172</b>	<b>176</b>

### Note 5. User fees

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Children's program fees	37	26
External private works	16	58
Refuse disposal fees	177	138
Saleyard dues	23	33
Septic tank fees	5	7
Swimming pool fees	41	37
Valuation fees/supplementary charges	1	76
Other fees and charges	163	248
<b>Total user fees</b>	<b>463</b>	<b>623</b>

# Financial Statements

## For the year ending 30 June 2016

### Note 6. Grants

	2016 \$'000	2015 \$'000
<b>Summary of grants</b>		
Commonwealth funded grants	3,638	6,110
State funded grants	1,763	4,547
Other grants	9	9
<b>Total</b>	<b>5,410</b>	<b>10,666</b>
<b>Operating Grants</b>		
<b><i>Recurrent - Commonwealth Government</i></b>		
Victoria Grants Commission – General Purpose	1,065	3,433
Victoria Grants Commission – Local Roads	656	2,059
<b><i>Recurrent - State Government</i></b>		
Family and Children	449	483
Community	132	106
Emergency Services	92	92
School crossing supervisors	9	9
<b>Total recurrent operating grants</b>	<b>2,403</b>	<b>6,182</b>
<b><i>Non-recurrent – State Government</i></b>		
Community Development	134	193
Family and Children	173	-
Infrastructure	363	621
Environment	30	-
Economic Development	63	115
<b>Total non-recurrent operating grants</b>	<b>763</b>	<b>929</b>
<b>Total operating grants</b>	<b>3,166</b>	<b>7,111</b>
<b>Capital Grants</b>		
<b><i>Recurrent – Commonwealth Government</i></b>		
Roads to Recovery	1,917	618
<b><i>Recurrent – State Government</i></b>		
Country Roads and Bridges	-	1,000
Local Government Infrastructure Program	10	490
<b>Total recurrent capital grants</b>	<b>1,927</b>	<b>2,108</b>
<b><i>Non-recurrent – State Government</i></b>		
Infrastructure (buildings)	-	814
Roads/ Blackspot	-	594
Other infrastructure	317	39
<b>Total non-recurrent capital grants</b>	<b>317</b>	<b>1,447</b>
<b>Total capital grants</b>	<b>2,244</b>	<b>3,555</b>
<b>Total Grants</b>	<b>5,410</b>	<b>10,666</b>

# Financial Statements

## For the year ending 30 June 2016

	2016 \$'000	2015 \$'000
<b>Unspent grants received on condition that they be spent in a specific manner</b>		
Opening restricted assets resulting from grant revenues	2,014	3,794
Received during the financial year and remained unspent at balance date	1,490	1,085
Received in prior years and spent during the financial year	(1,660)	(2,865)
<b>Balance at year end</b>	<b>1,844</b>	<b>2,014</b>

### Note 7. Net gain/(loss) on disposal of property, infrastructure, plant and equipment

	2016 \$'000	2015 \$'000
Proceeds of sale	40	78
Written down value of assets disposed	(5)	(70)
<b>Total net gain/ (loss) on disposal of property, infrastructure, plant and equipment</b>	<b>35</b>	<b>8</b>

### Note 8. Other income

	2016 \$'000	2015 \$'000
Interest	293	321
Interest on rates	38	48
Community contributions	160	325
Other rent	46	49
Shared service	109	109
Other	260	126
<b>Total other income</b>	<b>906</b>	<b>978</b>

### Note 9. Employee costs and benefits

	2016 \$'000	2015 \$'000
Wages and salaries	3,950	4,059
WorkCover	73	71
Annual leave and long service leave	474	461
Superannuation (Note 10)	403	403
Fringe benefits tax	22	15
<b>Total employee benefits</b>	<b>4,922</b>	<b>5,009</b>

# Financial Statements

## For the year ending 30 June 2016

### Note 10. Superannuation

Council made contributions to the following funds:

	2016 \$'000	2015 \$'000
<b>Defined benefit funds</b>		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	51	49
	<b>51</b>	<b>49</b>
Employer contributions payable at reporting date	-	-
<b>Accumulation funds</b>		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	165	181
Employer contributions to other funds	187	173
	<b>352</b>	<b>354</b>
Employer contributions payable at reporting date	-	-
<b>Total Superannuation</b>	<b>403</b>	<b>403</b>

Refer to Note 31 for further information relating to Council's superannuation obligations

### Note 11. Materials and services

	2016 \$'000	2015 \$'000
Materials and services	2,471	2,736
Contract payments	318	301
Building maintenance	841	1,062
Plant and equipment maintenance	322	351
Utilities	164	166
Consultants	-	6
<b>Total materials and services</b>	<b>4,116</b>	<b>4,622</b>

### Note 12. Depreciation and amortisation

	2016 \$'000	2015 \$'000
Property	510	472
Plant and equipment	571	626
Infrastructure	2,455	2,189
<b>Total depreciation and amortisation</b>	<b>3,536</b>	<b>3,287</b>

Refer to Note 21 for a more detailed breakdown of depreciation and amortisation charges.

# Financial Statements

## For the year ending 30 June 2016

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### Note 13. Borrowing costs

	2016 \$'000	2015 \$'000
Bank fees and overdraft charges	10	8
Interest - Finance leases	-	9
<b>Total borrowing costs</b>	<b>10</b>	<b>17</b>

### Note 14. Other expenses

	2016 \$'000	2015 \$'000
Auditors' remuneration – Victorian Auditor General's Office – audit of financial statements, performance statement and grant acquittals	43	29
Councillors' allowances	154	150
Contributions	134	137
<b>Total other expenses</b>	<b>331</b>	<b>316</b>

# Financial Statements

## For the year ending 30 June 2016

### Note 15. Investments in associates, joint arrangements and subsidiaries

	2016 \$'000	2015 \$'000
Investments in joint arrangements accounted for by the equity method are: - MomentumOne Shared Services Pty Ltd		
<i>A 50% interest is held in MomentumOne Shared Services Pty Ltd.</i>		
<b>Fair value of Council's investment in MomentumOne Shared Services Pty Ltd</b>		
<b>Council's share of accumulated surplus/(deficit)</b>		
Council's share of accumulated surplus(deficit) at start of year	-	-
Reported surplus(deficit) for year	(14)	-
Transfers (to) from reserves	-	-
Distributions for the year	-	-
<b>Council's share of accumulated surplus(deficit) at end of year</b>	<b>(14)</b>	-
<b>Council's share of reserves</b>		
Council's share of reserves at start of year	-	-
Transfers (to) from reserves	-	-
Council's share of reserves at end of year	-	-
<b>Movement in carrying value of specific investment</b>		
Carrying value of investment at start of year	-	-
Initial investment in associate (start up capital)	35	-
Share of surplus(deficit) for year	(14)	-
Share of asset revaluation	-	-
Distributions received	-	-
<b>Carrying value of investment at end of year</b>	<b>21</b>	-
<b>Council's share of expenditure commitments</b>		
Operating commitments	-	-
Capital commitments	-	-
<b>Council's share of expenditure commitments</b>	-	-

### Note 16. Cash and cash equivalents

	2016 \$'000	2015 \$'000
<b>Cash and cash equivalents</b>		
Cash on hand	1	1
Cash at bank	88	1,900
Money market call account	1,987	2,124
Term deposits (original maturity less than 3 months)	-	4,650
<b>Total cash and cash equivalents</b>	<b>2,076</b>	<b>8,675</b>

# Financial Statements

## For the year ending 30 June 2016

Council's cash and cash equivalents are subject to a number of internal and external restrictions that limit amounts available for discretionary or future use. These include:		
- Unexpended grant funding (Note 6)	1,844	2,014
- Trust funds and deposits (Note 23)	297	276
<b>Restricted Funds</b>	<b>2,141</b>	<b>2,290</b>
<b>Total unrestricted cash and cash equivalents</b>	<b>(65)</b>	<b>6,385</b>
<b>Intended allocations</b>		
Although not externally restricted the following amount has been allocated for specific future purposes by Council:		
- Cash held to fund carried forward capital works	<b>2,838</b>	<b>3,509</b>

Refer also to Note 18 for details of other financial assets held by Council.

# Financial Statements

## For the year ending 30 June 2016

### Note 17. Trade and other receivables

	2016 \$'000	2015 \$'000
<b>Current</b>		
Rates debtors	624	546
Walwa Waste Water Supply Scheme debtors	16	17
Eskdale Water Supply Scheme debtors	10	9
Fire Service Property Levy debtors	76	72
Sundry debtors	175	134
Accrued income	69	72
Net GST receivable	115	216
<b>Total current trade and other receivables</b>	<b>1,085</b>	<b>1,066</b>
<b>Non-current</b>		
Walwa Waste Water Supply Scheme debtors	144	167
Eskdale Water Supply Scheme debtors	9	18
<b>Total non-current trade and other receivables</b>	<b>153</b>	<b>185</b>
<b>Total trade and other receivables</b>	<b>1,238</b>	<b>1,251</b>

#### a) Ageing of sundry debtors

At balance date sundry debtors representing financial assets were past due but not impaired. These amounts relate to a number of independent customers for whom there is no recent history of default. The ageing of Council's trade receivables (excluding statutory receivables) was:

	2016 \$'000	2015 \$'000
Current (not yet due)	68	98
Past due by up to 30 days	17	2
Past due between 31 and 180 days	50	21
Past due between 181 and 365 days	10	3
Past due by more than 1 year	30	10
<b>Total sundry debtors</b>	<b>175</b>	<b>134</b>

### Note 18. Other financial assets

	2016 \$'000	2015 \$'000
Term deposits (original maturity greater than 3 months)	9,005	2,836
<b>Total other financial assets</b>	<b>9,005</b>	<b>2,836</b>

### Note 19. Inventories

	2016 \$'000	2015 \$'000
Inventories held for internal use	301	253
<b>Total inventories</b>	<b>301</b>	<b>253</b>



# Financial Statements

## For the year ending 30 June 2016

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### Note 20. Other assets

	2016 \$'000	2015 \$'000
<b>Current</b>		
Prepayments	42	17
<b>Total</b>	<b>42</b>	<b>17</b>

# Financial Statements

For the year ending 30 June 2016

## Note 21. Property, infrastructure, plant and equipment

### Summary of property, infrastructure, plant and equipment

	At fair value 30 June 2016 \$'000	Accumulated depreciation \$'000	WDV 30 June 2016 \$'000
Property	33,042	(11,861)	21,181
Plant and equipment	7,020	(4,546)	2,474
Infrastructure	217,494	(59,825)	157,669
Work in progress	571	-	571
	<b>258,127</b>	<b>(76,232)</b>	<b>181,895</b>

	At fair value 30 June 2015 \$'000	Accumulated depreciation \$'000	WDV 30 June 2015 \$'000
	29,098	(11,351)	17,747
	7,057	(4,195)	2,862
	212,896	(56,550)	156,346
	1,367	-	1,367
	<b>250,411</b>	<b>(72,089)</b>	<b>178,322</b>

### Summary of work in progress

	Opening WIP \$'000	Additions \$'000	Transfers \$'000	Write offs \$'000	Closing WIP \$'000
Property	1,362	3,013	(4,341)	-	34
Plant and equipment	-	-	-	-	-
Infrastructure	5	2,520	(1,988)	-	537
	<b>1,367</b>	<b>5,533</b>	<b>(6,329)</b>	<b>-</b>	<b>571</b>

# Financial Statements

## For the year ending 30 June 2016

### a. Property

Property	Land - specialised \$'000	Land – non specialised \$'000	Total Land \$'000	Buildings – non specialised \$'000	Total land and buildings \$'000	Work in progress (WIP) \$'000	Total property including WIP \$'000
At fair value 1 July 2015	1,545	3,760	5,305	23,793	29,098	1,362	30,460
Accumulated depreciation at 1 July 2015	-	-	-	(11,351)	(11,351)	-	(11,351)
<b>Written down value at 1 July 2015</b>	<b>1,545</b>	<b>3,760</b>	<b>5,305</b>	<b>12,442</b>	<b>17,747</b>	<b>1,362</b>	<b>19,109</b>
<b>Movements in fair value</b>							
Acquisition of assets at fair value	-	-	-	-	-	2,616	2,616
Revaluation increments/decrements	-	-	-	-	-	-	-
Fair value of assets disposed	-	-	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-
Transfers	-	-	-	3,944	3,944	(3,944)	-
<b>Total movements in fair value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,944</b>	<b>3,944</b>	<b>(1,328)</b>	<b>2,616</b>
<b>Movements in accumulated depreciation</b>							
Depreciation and amortisation	-	-	-	(510)	(510)	-	(510)
Revaluation increments/ (decrements)	-	-	-	-	-	-	-
Accumulated depreciation of disposals	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-
<b>Total movements in accumulated depreciation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(510)</b>	<b>(510)</b>	<b>-</b>	<b>(510)</b>
At fair value 30 June 2016	1,545	3,760	5,305	27,737	33,042	34	33,076
Accumulated depreciation at 30 June 2016	-	-	-	(11,861)	(11,861)	-	(11,861)
<b>Written down value at 30 June 2016</b>	<b>1,545</b>	<b>3,760</b>	<b>5,305</b>	<b>15,876</b>	<b>21,181</b>	<b>34</b>	<b>21,215</b>

# Financial Statements

## For the year ending 30 June 2016

### b. Plant and equipment

Plant and equipment	Plant, machinery and equipment	Fixtures, fittings and furniture	Computers	Library books	Total plant and equipment
	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2015	6,693	17	347	-	<b>7,057</b>
Accumulated depreciation at 1 July 2015	(3,969)	(17)	(209)	-	<b>(4,195)</b>
<b>Written down value at 1 July 2015</b>	<b>2,724</b>	-	<b>138</b>	-	<b>2,862</b>
<b>Movements in fair value</b>					
Acquisition of assets at fair value	109	-	39	40	<b>188</b>
Revaluation increments/decrements	-	-	-	-	-
Fair value of assets disposed	(225)	-	-	-	<b>(225)</b>
Impairment losses recognised in operating result	-	-	-	-	-
Transfers	-	-	-	-	-
<b>Total movements in fair value</b>	<b>(116)</b>	-	<b>39</b>	<b>40</b>	<b>(37)</b>
<b>Movements in accumulated depreciation</b>					
Depreciation and amortisation	(481)	-	(90)	-	<b>(571)</b>
Revaluation increments/ (decrements)	-	-	-	-	-
Accumulated depreciation of disposals	220	-	-	-	<b>220</b>
Transfers	-	-	-	-	-
<b>Total movements in accumulated depreciation</b>	<b>(261)</b>	-	<b>(90)</b>	-	<b>(351)</b>
At fair value 30 June 2016	6,577	17	386	40	<b>7,020</b>
Accumulated depreciation at 30 June 2016	(4,230)	(17)	(299)	-	<b>(4,546)</b>
<b>Written down value at 30 June 2016</b>	<b>2,347</b>	-	<b>87</b>	<b>40</b>	<b>2,474</b>

# Financial Statements

## For the year ending 30 June 2016

### c. Infrastructure

Infrastructure	Roads	Bridges	Footpaths	Drainage	Kerb and channel	Parks, open spaces and streetscapes	Landfill	Other infrastructure	Total infrastructure	Work in progress	Total infrastructure including WIP
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2015	170,645	25,520	1,507	6,885	7,566	24	749	-	212,896	5	212,901
Accumulated depreciation at 1 July 2015	(37,815)	(11,163)	(646)	(2,776)	(3,899)	(1)	(250)	-	(56,550)	-	(56,550)
<b>Written down value at 1 July 2015</b>	<b>132,830</b>	<b>14,357</b>	<b>861</b>	<b>4,109</b>	<b>3,667</b>	<b>23</b>	<b>499</b>	<b>-</b>	<b>156,346</b>	<b>5</b>	<b>156,351</b>
<b>Movements in fair value</b>											
Acquisition of assets at fair value	-	-	-	-	-	-	116	-	116	2,854	2,970
Revaluation increments/decrements	-	-	-	2,160	-	-	-	-	2,160	-	2,160
Fair value of assets disposed	-	-	-	-	-	-	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-	-
Transfers	1,760	114	14	91	84	39	-	220	2,322	(2,322)	-
<b>Total movements in fair value</b>	<b>1,760</b>	<b>114</b>	<b>14</b>	<b>2,251</b>	<b>84</b>	<b>39</b>	<b>116</b>	<b>220</b>	<b>4,598</b>	<b>532</b>	<b>5,130</b>
<b>Movements in accumulated depreciation</b>											
Depreciation and amortisation	(1,824)	(217)	(22)	(58)	(85)	(3)	(224)	(22)	(2,455)	-	(2,455)
Revaluation increments/ (decrements)	-	-	-	(820)	-	-	-	-	(820)	-	(820)
Accumulated depreciation of disposals	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-	-
<b>Total movements in accumulated depreciation</b>	<b>(1,824)</b>	<b>(217)</b>	<b>(22)</b>	<b>(878)</b>	<b>(85)</b>	<b>(3)</b>	<b>(224)</b>	<b>(22)</b>	<b>(3,275)</b>	<b>-</b>	<b>(3,275)</b>
At fair value 30 June 2016	172,405	25,634	1,521	9,136	7,650	63	865	220	217,494	537	218,031
Accumulated depreciation at 30 June 2016	(39,639)	(11,380)	(668)	(3,654)	(3,984)	(4)	(474)	(22)	(59,825)	-	(59,825)
<b>Written down value at 30 June 2016</b>	<b>132,766</b>	<b>14,254</b>	<b>853</b>	<b>5,482</b>	<b>3,666</b>	<b>59</b>	<b>391</b>	<b>198</b>	<b>157,669</b>	<b>537</b>	<b>158,206</b>

# Financial Statements

## For the year ending 30 June 2016

### *Valuation of land and buildings*

Valuation of land and buildings were undertaken by a qualified independent valuer (Marcus Hann, 62901, of LG Valuation Services Pty Ltd, ABN 77 095 763 625) as at 1 July 2012. The valuation of land and buildings is at fair value, being market value based on highest and best use permitted by relevant land planning provisions. Where land use is restricted through existing planning provisions the valuation is reduced to reflect this limitation. This adjustment is an unobservable input in the valuation. The adjustment has no impact on the Comprehensive Income Statement.

Specialised land is valued at fair value using site values adjusted for englobo (undeveloped and/or unserviced) characteristics, access rights and private interests of other parties and entitlements of infrastructure assets and services. This adjustment is an unobservable input in the valuation. The adjustment has no impact on the Comprehensive Income Statement.

Any significant movements in the unobservable inputs for land and land under roads will have a significant impact on the fair value of these assets.

Details of Council's land and buildings and information about the fair value hierarchy as at 30 June 2016 are as follows:

	Level 1	Level 2	Level 3
Land	-	-	3,760
Specialised land	-	-	1,545
Buildings	-	-	15,876
<b>Total</b>	-	-	<b>21,181</b>

### *Valuation of infrastructure*

A valuation of Council's infrastructure assets was performed by Moloney Asset Management Systems. The effective date of the valuation is 30 June 2014, for all infrastructure assets other than drainage assets. A valuation of Council's drainage assets was performed by Ms Rachael Gadd (B Eng, Dip Ed), Civil Asset Engineer for Towong Shire Council effective 30 June 2016.

The valuation is at fair value based on replacement cost less accumulated depreciation as at the date of valuation.

Details of Council's infrastructure and information about the fair value hierarchy as at 30 June 2016 are as follows:

	Level 1	Level 2	Level 3
Roads	-	-	132,766
Bridges	-	-	14,254
Footpaths and cycleways	-	-	853
Drainage	-	-	5,482
Parks, open space and streetscapes	-	-	59
Kerb and channel	-	-	3,666
Landfill	-	-	391
Other infrastructure	-	-	198
<b>Total</b>	-	-	<b>157,669</b>

# Financial Statements

## For the year ending 30 June 2016

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### *Description of significant unobservable inputs into level 3 valuations*

**Specialised land and land under roads** is valued using a market based direct comparison technique. Significant unobservable inputs include the extent and impact of restriction of use and the market cost of land per square metre. The extent and impact of restrictions on use varies and results in a reduction to surrounding land values between 85% and 95%. The market value of land varies significantly depending on the location of the land and the current market conditions. Currently land values range between \$1,000 and \$245,000.

**Non-Specialised buildings** are valued using a depreciated replacement cost technique. Significant unobservable inputs include the current replacement cost and remaining useful lives of buildings. Current replacement cost is calculated per building and ranges from \$10,000 to \$2,591,000. The remaining useful lives of buildings are determined on the basis of the current condition of buildings and start from 50 years useful life. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of buildings are sensitive to changes in expectations or requirements that could either shorten or extend the useful lives of buildings.

**Infrastructure assets** are valued based on the depreciated replacement cost. Significant unobservable inputs include the current replacement cost and remaining useful lives of infrastructure. The remaining useful lives of infrastructure assets are determined on the basis of the current condition of the asset and vary from 11 years to 120 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of infrastructure are sensitive to changes in use, expectations or requirements that could either shorten or extend the useful lives of infrastructure assets.

# Financial Statements

## For the year ending 30 June 2016

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### Note 22. Trade and other payables

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	531	397
Accrued wages	184	122
Accrued expenses	103	141
<b>Total trade and other payables</b>	<b>818</b>	<b>660</b>

### Note 23. Trust funds and deposits

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Retention amounts	71	100
Fire Services Property Levy	182	121
Refundable deposits	44	55
<b>Total trust funds and deposits</b>	<b>297</b>	<b>276</b>

Purpose and nature of items

*Retention amounts* - Council has a contractual right to retain certain amounts until a contractor has met certain requirements or a related warrant or defect period has elapsed. Subject to the satisfactory completion of the contractual obligations, or the elapsing of time, these amounts will be paid to the relevant contractor in line with Council's contractual obligations.

*Fire Services Property Levy* - Council is the collection agent for the Fire Services Property Levy on behalf of the State Government. Council remits amounts received on a quarterly basis. Amounts disclosed here will be remitted to the State Government in accordance with that process.

*Refundable deposits* - Deposits are taken by Council as a form of surety in a number of circumstances, including in relation to building works, tender deposits, contract deposits and the use of civic facilities.



# Financial Statements

## For the year ending 30 June 2016

### Note 24. Provisions

	Annual leave	Long service leave	Flexi time	Landfill rehabilitation	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2016</b>					
Balance at beginning of the financial year	290	856	16	425	1,587
Additional provisions	311	125	87	116	639
Amounts used	(331)	(55)	(88)	-	(474)
Balance at the end of the financial year	<b>270</b>	<b>926</b>	<b>15</b>	<b>541</b>	<b>1,752</b>
<b>2015</b>					
Balance at beginning of the financial year	245	808	14	232	1,299
Additional provisions	333	127	96	205	761
Amounts used	(288)	(79)	(94)	(12)	(473)
Balance at the end of the financial year	<b>290</b>	<b>856</b>	<b>16</b>	<b>425</b>	<b>1,587</b>

#### (a) Employee benefits

	2016 \$'000	2015 \$'000
<b>Current provisions expected to be wholly settled within 12 months</b>		
Annual leave	270	290
Long service leave	828	786
Flexi time	15	16
	<b>1,113</b>	<b>1,092</b>
<b>Non-current</b>		
Long service leave	98	70
	<b>98</b>	<b>70</b>
Aggregate carrying amount of employee benefits:		
Current	1,113	1,092
Non-current	98	70
<b>Total aggregate carrying amount of employee provisions</b>	<b>1,211</b>	<b>1,162</b>

#### (b) Landfill restoration

	2016 \$'000	2015 \$'000
Current	-	-
Non-current	541	425
<b>Total</b>	<b>541</b>	<b>425</b>

# Financial Statements

## For the year ending 30 June 2016

### Note 25. Interest bearing loans and borrowings

	2016 \$'000	2015 \$'000
<b><i>Borrowings</i></b>		
Current	-	-
Non-current	34	32
<b>Total Borrowings</b>	<b>34</b>	<b>32</b>
<b><i>Interest bearing loans and finance leases</i></b>		
Council had the following obligations under finance leases for the lease of equipment (the sum of which is recognised as a liability after deduction of future lease finance charges included in the obligation):		
Not later than one year	-	-
Minimum lease payments	-	-
Less: Future finance charges	-	-
Recognised in the balance sheet as:	-	-
<b><i>Leases</i></b>		
Current	-	-
Non-current	-	-
Total Leases	-	-
Aggregate carrying amount of interest-bearing loans and borrowings:		
Current	-	-
Non-current	34	32
<b>Total interest-bearing loans and borrowings</b>	<b>34</b>	<b>32</b>

# Financial Statements

## For the year ending 30 June 2016

### Note 26. Reserves

#### Asset revaluation reserve

	Balance at beginning of reporting period	Increment (decrement)	Balance at end of reporting period
	\$'000	\$'000	\$'000
<b>2016</b>			
<b>Property</b>			
Land	8,774	-	8,774
Buildings	2,398	-	2,398
	<b>11,172</b>	-	<b>11,172</b>
<b>Infrastructure</b>			
Roads	80,518	-	80,518
Bridges	10,789	-	10,789
Footpaths	513	-	513
Drainage	3,663	1,340	5,003
Kerb and channel	3,758	-	3,758
	<b>99,241</b>	<b>1,340</b>	<b>100,581</b>
<b>Total asset revaluation reserve</b>	<b>110,413</b>	<b>1,340</b>	<b>111,753</b>
<b>2015</b>			
<b>Property</b>			
Land	8,774	-	8,774
Buildings	2,398	-	2,398
	<b>11,172</b>	-	<b>11,172</b>
<b>Infrastructure</b>			
Roads	80,518	-	80,518
Bridges	10,789	-	10,789
Footpaths	513	-	513
Drainage	3,663	-	3,663
Kerb and channel	3,758	-	3,758
	<b>99,241</b>	-	<b>99,241</b>
<b>Total asset revaluation reserve</b>	<b>110,413</b>	-	<b>110,413</b>

The asset revaluation reserve is used to record the increased (net) value of Council's assets over time.

# Financial Statements

## For the year ending 30 June 2016

### Note 27. Reconciliation of cash flows from operating activities to surplus (deficit)

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Surplus/ (deficit)	1,538	6,242
Depreciation/amortisation	3,536	3,287
(Profit) / loss on disposal of property, infrastructure, plant and equipment	(35)	(8)
Financing activities included in operating result	10	17
<i>Change in assets and liabilities:</i>		
(Increase)/decrease in trade and other receivables	13	77
(Increase)/decrease in prepayments	(25)	12
(Increase)/decrease in inventories	(48)	12
(Increase)/decrease in investment in associates	14	-
Increase/(decrease) in trade and other payables (operating)	158	(227)
Increase/(decrease) in provisions	165	288
Increase/ (decrease) in trust funds and deposits	21	78
<b>Net cash provided by/(used in) operating activities</b>	<b>5,347</b>	<b>9,778</b>

### Note 28. Financing arrangements

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank overdraft	-	-
Credit card facility	25	25
Total facilities	25	25
Used facilities	25	25
<b>Unused facilities</b>	<b>-</b>	<b>-</b>

# Financial Statements

## For the year ending 30 June 2016

### Note 29. Commitments

2016	Not later than 1 year	1 to 2 years	2 to 5 years	Later than 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Operating</b>					
Other waste disposal	20	21	69	-	110
Corryong tennis court upgrade	145	-	-	-	145
<b>Total</b>	<b>165</b>	<b>21</b>	<b>69</b>	<b>-</b>	<b>255</b>
<b>Capital</b>					
Digouts/major patching	600	400	-	-	1,000
Reseal program	850	600	-	-	1,450
Bridge works	10	-	-	-	10
Building works	290	-	-	-	290
<b>Total</b>	<b>1,750</b>	<b>1,000</b>	<b>-</b>	<b>-</b>	<b>2,750</b>

2015	Not later than 1 year	1 to 2 years	2 to 5 years	Later than 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Operating</b>					
Other waste disposal	19	20	66	24	129
<b>Total</b>	<b>19</b>	<b>20</b>	<b>66</b>	<b>24</b>	<b>129</b>
<b>Capital</b>					
Digouts/major patching	600	-	-	-	600
Colac Colac Caravan park	145	-	-	-	145
Bellbridge streetscape	146	-	-	-	146
Tallangatta Integrated Community Centre	1,443	-	-	-	2,120
<b>Total</b>	<b>2,334</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,334</b>

# Financial Statements

## For the year ending 30 June 2016

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### Note 30. Operating leases

At the reporting date, Council had the following obligations under non-cancellable operating leases for the lease of land for use within Council's activities (these obligations are not recognised as liabilities):

	2016 \$'000	2015 \$'000
Not later than one year	20	19
Later than one year and not later than five years	90	110
Later than five years	-	-
	<b>110</b>	<b>129</b>

### Note 31. Superannuation

Council makes the majority of its employer superannuation contributions in respect of its employees to the Local Authorities Superannuation Fund (the Fund). This Fund has two categories of membership, accumulation and defined benefit, each of which is funded differently. Obligations for contributions to the Fund are recognised as an expense in the Comprehensive Income Statement when they are made or due.

#### **Accumulation**

The Fund's accumulation categories, Vision MySuper/Vision Super Saver, receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings (for the year ended 30 June 2016 this was 9.5% required under Superannuation Guarantee legislation).

#### **Defined benefit**

Council does not use defined benefit accounting for its defined benefit obligations under the Fund's Defined Benefit category. This is because the Fund's Defined Benefit category is a pooled multi-employer sponsored plan.

There is no proportional split of the defined benefit liabilities, assets or costs between the participating employers as the defined benefit obligation is a floating obligation between the participating employers and the only time that the aggregate obligation is allocated to specific employers is when a call is made. As a result, the level of participation of Council in the Fund cannot be measured as a percentage compared with other participating employers. Therefore, the Actuary is unable to allocate benefit liabilities, assets and costs between employers for the purposes of AASB 119.

#### **Funding arrangements**

Council makes employer contributions to the defined benefit category of the Fund at rates determined by the Trustee on the advice of the Fund's Actuary.

As at 30 June 2015, an interim actuarial investigation was held as the Fund provides lifetime pensions in the Defined Benefit category. The vested benefit index (VBI) of the defined benefit category of which Council is a contributing employer was 105.8%. To determine the VBI, the fund Actuary used the following long-term assumptions:

# Financial Statements

## For the year ending 30 June 2016

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Net investment returns	7.00% pa
Salary information	4.25% pa
Price inflation (CPI)	2.50% pa.

Vision Super has advised that the estimated VBI at 30 June 2016 was 102.0%.

The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 2015 interim actuarial investigation determined the Defined Benefit category was in a satisfactory financial position and that no change was necessary to the Defined Benefit category's funding arrangements from prior years.

### ***Employer contributions***

#### ***Regular contributions***

On the basis of the results of the 2015 interim actuarial investigation conducted by the Fund's Actuary, Council makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2016, this rate was 9.5% of members' salaries (2015: 9.5%). This rate will increase in line with any increase to the Superannuation Guarantee (SG) contribution rate. In addition, Council reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit.

#### ***Funding calls***

If the defined benefit category is in an unsatisfactory financial position at actuarial investigation or the defined benefit category's VBI is below its shortfall limit at any time other than the date of the actuarial investigation, the defined benefit category has a shortfall for the purposes of SPS 160 and the Fund is required to put a plan in place so that the shortfall is fully funded within three years of the shortfall occurring. The Fund monitors its VBI on a quarterly basis and the Fund has set its shortfall limit at 97%.

In the event that the Fund Actuary determines that there is a shortfall based on the above requirement, the Fund's participating employers (including Towong Shire Council) are required to make an employer contribution to cover the shortfall. Using the agreed methodology, the shortfall amount is apportioned between the participating employers based on the pre-1 July 1993 and post-30 June 1993 service liabilities of the Fund's defined benefit category, together with the employer's payroll at 30 June 1993 and at the date the shortfall has been calculated.

Due to the nature of the contractual obligations between the participating employers and the Fund, and that the Fund includes lifetime pensioners and their reversionary beneficiaries, it is unlikely that the Fund will be wound up. If there is a surplus in the Fund, the surplus cannot be returned to the participating employers. In the event that a participating employer is wound-up, the defined benefit obligations of that employer will be transferred to that employer's successor.

#### **2015 interim actuarial investigation surplus amounts**

The Fund's interim actuarial investigation as at 30 June 2015 identified the following in the defined benefit category of which Council is a contributing employer:

- A VBI surplus of \$130.8 million; and
- A total service liability surplus of \$239 million.

# Financial Statements

## For the year ending 30 June 2016

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The VBI surplus means that the market value of the fund's assets supporting the defined benefit obligations exceed the vested benefits that the defined benefit members would have been entitled to if they had all exited on 30 June 2015. The total service liability surplus means that the current value of the assets in the Fund's defined benefit category plus expected future contributions exceeds the value of expected future benefits and expenses. Council was notified of the results of the actuarial investigation during August 2015.

### **Future superannuation contributions**

The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2017 is \$50,000.

## **Note 32. Contingent liabilities**

Council has obligations under a defined benefit superannuation scheme that may result in the need to make additional contributions to the scheme. Matters relating to this potential obligation are outlined in Note 31. As a result of the volatility in financial markets the likelihood of making such contributions in future periods exists. At this point in time it is not known if additional contributions will be required, their timing or potential amount.

## **Note 33. Financial Instruments**

### **(a) Objectives and policies**

Council's principal financial instruments comprise cash assets, term deposits, receivables (excluding statutory receivables), payables (excluding statutory payables) and bank borrowings. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument is disclosed in Note 1 of the financial statements. Risk management is carried out by senior management under policies approved by Council. These policies include identification and analysis of the risk exposure to Council and appropriate procedures, controls and risk minimisation.

### **(b) Market risk**

Market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. Council's exposure to market risk is primarily through interest rate risk with only insignificant exposure to other price risks and no exposure to foreign currency risk.

### **Interest rate risk**

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Council does not hold any interest bearing financial instruments that are measured at fair value, and therefore has no exposure to fair value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Council has minimal exposure to cash flow interest rate risk through its cash and deposits that are at floating rates.

Investment of surplus funds is made with approved financial institutions under the *Local Government Act 1989*. Council manages interest rate risk by adopting an investment policy that ensures:



# Financial Statements

## For the year ending 30 June 2016

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- diversification of investment product
- monitoring of return on investment
- benchmarking of returns and comparison with budget

There has been no significant change in Council's exposure, or its objectives, policies and processes for managing interest rate risk or the methods used to measure this risk from the previous reporting period.

Interest rate movements have not been sufficiently significant during the year to have an impact on Council's year end result.

### **(c) Credit risk**

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause us to make a financial loss. We have exposure to credit risk on some financial assets included in our balance sheet. To help manage this risk:

- we have a policy for establishing credit limits for the entities we deal with
- we may require collateral where appropriate
- we only invest surplus funds with financial institutions which have a recognised credit rating specified in our investment policy.

Receivables consist of a large number of customers, spread across the ratepayer, business and government sectors. Credit risk associated with Council's financial assets is minimal because the main debtor is secured by a charge over the rateable property.

There are no material financial assets which are individually determined to be impaired.

We may also be subject to credit risk for transactions which are not included in the balance sheet, such as when we provide a guarantee for another party. Details of our contingent liabilities are disclosed in Note 32.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. Council does not hold any collateral.

### **(d) Liquidity risk**

Liquidity risk includes the risk that, as a result of our operational liquidity requirements we will not have sufficient funds to settle a transaction when required.

To help reduce these risks Council:

- has a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments;
- monitors budget to actual performance on a regular basis

Council's maximum exposure to liquidity risk is the carrying amounts of financial liabilities as disclosed in the balance sheet and is deemed insignificant based on prior periods' data and current assessment of risk.

There has been no significant change in Council's exposure, or its objectives, policies and processes for managing liquidity risk or the methods used to measure this risk from the previous reporting period.

# Financial Statements

## For the year ending 30 June 2016

With the exception of borrowings, all financial liabilities are expected to be settled within normal terms of trade. Details of the maturity profile for borrowings are disclosed at Note 25.

### e) Fair value

Unless otherwise stated, the carrying amount of financial instruments, reflect their fair value.

#### Fair value hierarchy

Council's financial assets and liabilities are not valued in accordance with the fair value hierarchy. Council's financial assets and liabilities are measured at amortised cost.

### (f) Sensitivity disclosure analysis

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, Council believes the following movements are 'reasonably possible' over the next 12 months:

- A parallel shift of + 1% and -1% in market interest rates (AUD) from year-end rates.

These movements will not have a material impact on the valuation of Council's financial assets and liabilities, nor will they have a material impact on the results of Council's operations.

## Note 34. Related party transactions

### a) Responsible persons

Names of persons holding the position of a responsible person at Council at any time during the year are:

Councillors

Cr David Wortmann (Mayor)

Cr Aaron Scales

Cr Mary Fraser

Cr Debi Gadd

Cr Peter Joyce

Chief Executive Officer

Ms Juliana Phelps

Mr Jamie Heritage (acting from 27 April 2016 to 23 May 2016)

### b) Remuneration of responsible persons

	2016 Number of responsible persons	2015 Number of responsible persons
\$20,000 - \$29,999	4	3
\$30,000 - \$39,999	-	1
\$50,000 - \$59,999	-	1
\$60,000 - \$69,999	1	-
\$200,000 - \$209,999	-	1
\$220,000 - \$229,999	1	-
	<b>6</b>	<b>6</b>
	<b>\$'000</b>	<b>\$'000</b>
Total Remuneration for the reporting year for Responsible Persons included above amounted to:	388	367

# Financial Statements

## For the year ending 30 June 2016

### c) Senior officers remuneration

A Senior Officer other than a Responsible Person, is an officer of Council who has management responsibilities and reports directly to the Chief Executive or whose total annual remuneration exceeds \$139,000 (2014/15: \$136,000).

The number of Senior Officers other than the Responsible Persons, are shown below in their relevant income bands:

	<b>2016 Number of senior officers</b>	<b>2015 Number of senior officers</b>
<\$139,000	2	2
\$160,000 - \$169,999	-	1
\$170,000 - \$179,000	1	1
\$180,000 - \$189,000	1	-
	<b>4</b>	<b>4</b>
	<b>\$'000</b>	<b>\$'000</b>
Total Remuneration for the reporting year for Responsible Persons included above amounted to:	573	545

### Responsible persons retirement benefits

No retirement benefits have been made by Council to a Responsible Person (2014/15: nil).

### Loans to responsible persons

No loans have been made, guaranteed or secured by Council to a Responsible Person during the reporting year (2014/15: nil).

### Transactions with responsible persons

There were payments of \$3,038.25 (including GST) made to Dartmouth Pub Pty Ltd in 2015/16 (2014/15 \$2,998.41). Cr Aaron Scales has an interest in this business.

No other transactions other than remuneration payments or the reimbursement of approved expenses were entered into by Council with Responsible Persons, or Related Parties of such Responsible Persons during the reporting year (2014/15: nil).

### Note 35. Events occurring after balance date

No matters have occurred after balance date that requires disclosure in the financial report.

# Financial Statements

## For the year ending 30 June 2016

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### Certification of the Financial Statements

In my opinion the accompanying financial statements have been prepared in accordance with the Local Government Act 1989, the Local Government (Planning and Reporting) Regulations 2014, Australian Accounting Standards and other mandatory professional reporting requirements.



*Mr Blair Phillips, Certified Practicing Accountant*

**Principal Accounting Officer**

Tuesday 20 September 2016

Tallangatta

In our opinion the accompanying financial statements present fairly the financial transactions of Towong Shire Council for the year ended 30 June 2016 and the financial position of Council as at that date.

As at the date of signing, we are not aware of any circumstances which would render any particulars in the financial statements to be misleading or inaccurate.

We have been authorised by Council and by the Local Government (Planning and Reporting) Regulations 2014 to certify the financial statements in their final form.



*Cr Aaron Scales*

**Deputy Mayor**

Tuesday 20 September 2016

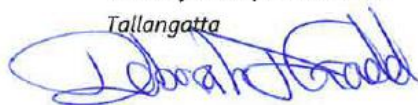
Tallangatta

*Cr Debi Gadd*

**Councillor**

Tuesday 20 September 2016

Tallangatta



*Ms Juliana Phelps, Chartered Accountant*

**Chief Executive Officer**

Tuesday 20 September 2016

Tallangatta



# Financial Statements

## For the year ending 30 June 2016

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### Auditor-General's Report



#### INDEPENDENT AUDITOR'S REPORT

##### To the Councillors, Towong Shire Council

###### *The Financial Report*

I have audited the accompanying financial report for the year ended 30 June 2016 of the Towong Shire Council which comprises the comprehensive income statement, balance sheet, statement of changes in equity, statement of cash flows, statement of capital works, notes comprising a summary of the significant accounting policies and other explanatory information, and the certification of the financial statements.

###### *The Councillors' Responsibility for the Financial Report*

The Councillors of the Towong Shire Council are responsible for the preparation and the fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Local Government Act 1989*.

The Councillors are responsible for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

###### *Auditor's Responsibility*

As required by the *Audit Act 1994* and the *Local Government Act 1989*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Councillors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

# Financial Statements

## For the year ending 30 June 2016

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### Independent Auditor's Report (continued)


#### *Independence*

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, I and my staff and delegates complied with the applicable independence requirements of the Australian Auditing Standards and relevant ethical pronouncements.

#### *Opinion*

In my opinion the financial report presents fairly, in all material respects, the financial position of the Towong Shire Council as at 30 June 2016 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Local Government Act 1989*.

MELBOURNE  
27 September 2016

  
Andrew Greaves  
Auditor-General