



ESSENTIAL SERVICES COMMISSION

Local Government

Higher cap – Application cover sheet (2019-20)

Council name

Warrnambool City Council

Contact person and phone number

Director Corporate Strategies Peter Utri, 03 5559 4807

Base Average Rate (\$): (e.g. \$1,800)

\$1,857.27 (forecast average for 2018-2019).

Proposed increase for 2019-20: (e.g. 5%, \$4,000,000)

Proposed increase in Average Rate (%) 4.5%

Proposed increase in prescribed rate revenue (\$) \$1,287,454

Proposed increase for following year(s): (e.g. 5%, 2%, \$4,000,000)

2020-21	Proposed increase in Average Rate (%)	4.5%
	Proposed increase in prescribed rate revenue (\$)	\$1,534,226
	Note: Assumed rate of forecast CPI (%)	2.5%
2021-22	Proposed increase in Average Rate (%)	4.5%
	Proposed increase in prescribed rate revenue (\$)	\$1,601,632
	Note: Assumed rate of forecast CPI (%)	2.5%
2022-23	Proposed increase in Average Rate (%)	N/A
	Proposed increase in prescribed rate revenue (\$)	
	Note: Assumed rate of forecast CPI (%)	

Please attach:

- evidence of council sign-off/approval of application
- 2017–18 Annual Report + 2018–19 Budget + Draft 2019–20 Budget
- Council Plan / Strategic Resource Plan
- any other information supporting the application

Summary of the key reason(s) for the application: (Please limit response to two pages)

Council is faced with significant challenges to maintain the levels of service to the community within the current rate cap. Council is aware the community does not wish to be taxed further and has for the past three years sought to introduce efficiencies in order to avoid seeking a variation to the rate cap.

The rate variation is one lever through which Council is seeking to maintain its services and assets.

It is also continuing to seek operating efficiencies, to reduce services where possible and place a greater emphasis on a user pays approach to select services.

Council notes that a reliance on further increasing user fees can be a fraught alternative with a disproportionate effect on many of the most vulnerable in our community. This cohort is the target of many of our services. Council is, however, reviewing those areas that it deems could and should contribute further to reduce the subsidy of services provided to them.

Council has over recent years delivered balanced budgets within a capped rate revenue stream environment and a decrease in own-source revenue of over a \$1 million per annum compared to our pre rate cap revenue.

Council has continually sought to operate efficiently within the past years achieving a controlled 1.2% rise in the operating costs and a rise of 3% for the preceding two years.

Council is using loans to implement generational infrastructure projects such as a major drainage tunnel renewal (Simpson Street tunnel) and the development of a premier regional sportsground (Reid Oval).

Council has chosen to have its debt ratios remain low and to have the capacity to access these funds should further generational infrastructure be required. Council has a limited ability to use recurrent funds for further debt reduction.

The primary driver for seeking a rate cap variation is to address Council's asset renewal funding gap. Council must address the growing backlog of renewal projects and close the asset renewal gap that is growing in our current financial forecasts.

It is Council's intention to target any increase in rates from the in years one and two to the reduction of the asset renewal back log and utilise year three increases to offset the increase service costs for the new library services and to continue with increased contributions to the reducing the asset renewal gap.

Council flagged to the community within its Strategic Resource Plan of the 2017 – 2018 and in 2018-2019 the need for a variation above the Government rate cap of CPI in order to retain the breadth and level of services offered to the community and to remain financially sustainable.

Warrnambool Council has historically maintained its rating strategy at about the average of Benchmark Regional Council rates, for the average rateable property.

The provision of regional services not supported by other levels of government contributes to the pressure on Councils recurrent budget.

The consequence of not being successful in a rate cap variation application is a very real possibility for the reduction of services to the community or the reducing condition of our assets.

Council will work to resolve pressures with in its operating budget with a continued focus on finding efficiencies and a review of the appropriateness of the level of services provided to the community.

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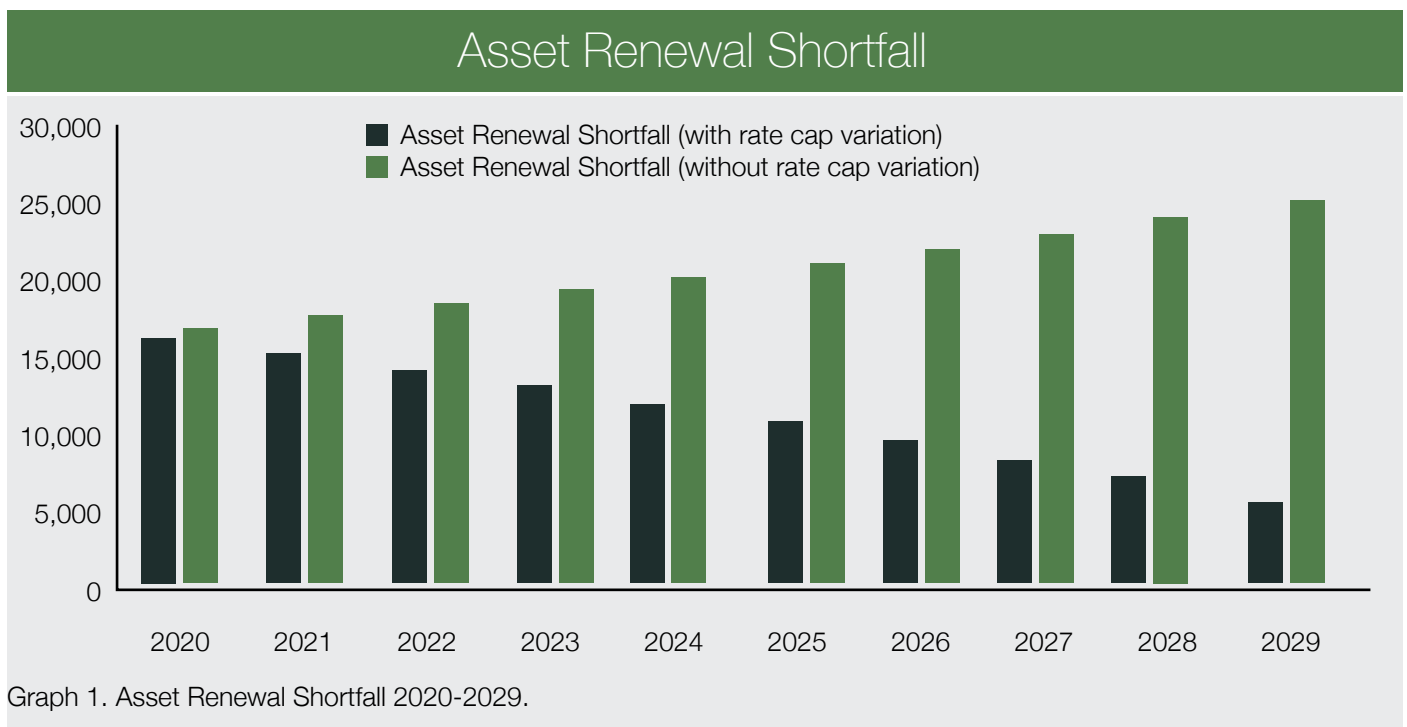
Warrnambool City Council Higher Cap Application

Warrnambool City Council Higher Cap Application

Introduction

Warrnambool City Council wishes to ensure it can maintain an appropriate level of financial sustainability over the next decade. At the same time Council wishes to maintain and evolve assets and services -commensurate with a thriving regional centre - for its community.

Council's Long Term Financial Plan (2020-2029) indicates that without a rate cap variation the City's asset renewal shortfall will grow from the current figure of \$16.5 million to in excess of \$25 million over the coming decade (Appendix 1 and 2). With the proposed higher variation Council will be able to address its asset shortfall and reduce it to under \$6 million by 2029.



The 10-year financial forecast without a rate cap variation also reveals that Council will be financially unsustainable and will have ongoing and worsening financial deficits.

Financial sustainability challenges will also be addressed through constant review of service provision and the way in which these services are delivered.

Borrowing as a financial lever remains an option Council uses for intergenerational projects.

At a Special Council Meeting held on March 25, 2019 Council passed a motion to submit an application to the Essential Services Commission seeking a variation to the rate cap.

The proposed higher cap

An application to the Essential Services Commission is sought for a variation to the rate cap which is 4.5% for each of the three years from 2019 -2020. Our assumptions are that this equates to a 2% increase each year on an assumed annual CPI of 2.5%.

This higher cap is expected to achieve an additional \$2.10m per annum by year three.

Table 1	Annual	Cumulative
2019-2020	\$0.65m	\$0.65m
2020- 2021	\$0.69m	\$1.34m
2021 -2022	\$0.76m	\$2.10m

With assumed annual CPI growth of 2.5% for the subject years.

Why Council is seeking a higher cap

Why Council is seeking a higher cap

Structural anomaly

Warrnambool City Council is faced with an anomalous geographic and structural composition. We are a provider of regional services but from the 1990s Local Government amalgamations a structural aberration has resulted in a constrained rate base for the range of services provided. Warrnambool is a city with small townships contained in a municipality of just 120sqkm but which provides services to the Moyne Shire and to a lesser extent the Corangamite, Southern Grampians and Glenelg municipalities.

There is currently no political appetite to revisit amalgamations; Warrnambool City Council is focused on developing shared services opportunities to achieve economies of scale and efficiencies; there are implications for Warrnambool arising from the report, Rural and Regional Councils Sustainability Reform Program prepared for Local Government Victoria by KPMG (<http://www.ruralcouncilsvictoria.org.au/key-documents/useful-links-and-resources/kpmg-report-rural-and-regional-councils-sustainability-reform-program/>).

In order to establish and maintain its services (including regional services) Warrnambool City Council applied a 10-year average rates and charges increase of 5.97% per annum prior to the Fair Go rates system. Warrnambool was created as the smallest regional city by land area by a factor of four. Other regional cities were amalgamated with portions of surrounding shires to create appropriate economies of scale and achieve significant cost and rate savings. Warrnambool is at a structural disadvantage without this disbursement of costs across a wider rate base while at the same time providing services as a regional commercial, regional sporting and regional tourism centre. The table below shows the geographic area and population of Victorian regional cities with Warrnambool clearly having the smallest area.

The outcome of amalgamation in relation to Warrnambool City Council appeared to run counter to the stated aims of the then Victorian Government around gaining economies of scale and reduction of duplicated processes. This was particularly evident in the establishment of Victoria's regional city municipalities where small shires and boroughs were amalgamated to become administered by a single regional centre.

Table 1. Comparison of Victorian regional city populations and catchments

Municipality	Population	Area (sqkm)
Municipality	Population	Area (sqkm)
City of Greater Shepparton	63,867	2,422
Rural City of Horsham	20,287	4,249
City of Latrobe	73,257	1,426
Rural City of Mildura	53,878	22,330
City of Wodonga	39,351	433
Rural City of Wangaratta	28,310	3,639
City of Ballarat	101,686	740
City of Greater Bendigo	110,477	3,048
City of Greater Geelong	233,429	1,247
Warrnambool City Council	34,555	120



There was little recognition of the financial impact of this decision in the long term once a “one size fits all” mechanism was introduced to externally control rates.

In general, the introduction of compulsory competitive tendering did little for Warrnambool with few alternative options for the provision of services available in the region.

Through extensive community engagement activities Warrnambool residents have repeatedly indicated they do not wish to see lower standards of service (Appendix 3 and 4).

South-west Victoria, with Warrnambool at its heart, was recently assessed as Australia’s second most productive agricultural region (Value of Agricultural Commodities Produced, Australia, 2015-16, Australian Bureau of Statistics). Warrnambool functions as the regional capital for the South West providing a Base Hospital, university, hub for Victorian Government services, TAFE headquarters and an integrated cancer treatment centre.

Residents and visitors to Warrnambool expect these services and other facilities currently provided including a performing arts theatre, art gallery, aquatic centre, sports stadium and regional sportsgrounds.

Despite the structural anomaly created during amalgamations Warrnambool still seeks to work in a collegiate and cooperative way with key stakeholders and neighbouring municipalities to improve on the efficiency of operations.

Examples of this effort include:

- Council is the cornerstone member of the Corangamite Regional Library Corporation.
- Council utilises the combined purchasing power of the State Government purchasing contracts it is able to access.
- Council is a member of the Municipal Association of Victoria collective purchasing scheme.
- Council is a Member of Procurement Australia, a member-based group purchasing scheme.
- Council is participating in the MAV “LEAP” procurement program to improve systems and outcomes in relation to procurement.

Council was a recipient of a FAST (Financial and Accounting Support Team) grant from Local Government Victoria to develop a business case for a shared IT platform with Corangamite and Moyne municipalities. The three councils have now been shortlisted for shared information technology services and a shared corporate services project to implement the business case that had been developed. This project is seeking a grant of up to \$5 million dollars from Rural Councils Transformation Program (RCTP) fund which will reduce the three councils ongoing ICT risks and improve their capacity to provide information and services to the communities of the in a modern, efficient manner. The project would see a positive return on investment to participating councils within five years.

Council, using its own resources, has already pursued small scale opportunities in the shared services area. These include joint procurement for road maintenance, joint procurement for banking services and sharing of a municipal surveyor. The creation of the RCTP sustainability fund responds to the realisation by the Victorian Government that there are significant hardships being experienced by rural and regional councils in Victoria (reference KPMG report).

The creation of the RCTP sustainability fund responds to the realisation by the Victorian Government that there are significant hardships being experienced by rural and regional councils in Victoria (Rural and Regional Councils Sustainability Reform Program Report).

The RCTP takes an incentive-based approach rather than a punitive approach and creates opportunities for achieving greater economies of scale without further municipal amalgamation.

The Rural and Regional Councils Sustainability Reform Program report is a comprehensive review of industry issues but raises more questions than answers. The scale of the problem is assessed but few options other than a reduction of services or an increase in rates are left to rural and regional councils when significant ongoing and sustainable change is required for the financial sustainability of these organisations.

The key findings in the report are listed below and Warrnambool has clearly identifiable impacts associated with each:

- a) Victoria’s local councils play a key role in enabling liveability and economic productivity for their communities, and contribute significantly to both local and state economies. Effective councils can further support the growth of new industries and diverse regional economies. Warrnambool has been assessed as Victoria’s most liveable city. In part this is because of the services provided by Council that deliver benefits to the wider region. These include a performing arts theatre, art gallery, aquatic centre, sports stadium and regional sportsgrounds. Warrnambool is a key player in the development of the region’s economy. Support for economic development in the region and the visitor economy makes up \$7.4 million or just under 10% of Council’s budget. This includes the Great South Coast Food and Fibre Council, Great Ocean Road Regional Tourism, Flagstaff Hill Maritime Village, Council-owned holiday parks, South-West Victorian Livestock Exchange and other economic development, business support and investment attraction.

- b) Small and large shire councils have lower populations spread across larger areas compared to other Victorian councils. These councils face relatively larger service delivery costs per unit and are often under pressure to fill a ‘market gap’ for services (given absence of alternative providers). Warrnambool has a comparatively small geographic rate base but the city provides services to a much wider geographic area including Moyne Shire and to some extent Southern Grampians and Corangamite shires.
- c) Population will change at different rates across Victoria over the coming decades. Population growth will be minimal for small shire councils and is forecast to decline in many of the local government areas in Victoria’s west. These councils will face challenges in maintaining revenue raising capacity in the future. Convergence of populations to regional centres such as Warrnambool increases pressure on service provision. Warrnambool continues to provide services to the broader areas, many of which are experiencing population decline. For example Maternal and Child Health services and childcare centres (in excess of 30 per cent of places in Warrnambool childcare centres are utilised by Moyne Shire residents).
- d) Across Victoria, the population is ageing which will impact the scope and mix of expected services of rural and regional councils. This is expected to be most notable in small shires, where persons over 65 are forecast to equal one third of the population by 2031.

Table 2. Median ages

Moyne	43
Corangamite	46
Warrnambool	40
Southern Grampians	46
Glenelg	47
Australia	38

We are a retirement destination and a centre for health care for the region. Council services including Home and Community Care, Planned Activity Groups and Rural Access are impacted by the movement of people from the region into Warrnambool.

- e) On average, people in rural Victoria are more likely to be socially disadvantaged, obese, have higher rates of tobacco smoking and higher levels of alcohol consumption than their average metropolitan counterparts. This may indicate a higher per capita demand for community and health services (Reference: WCC Health and Wellbeing Plan 2017-2021). In response to the issues outlined above, Council is developing an Active Warrnambool Strategy that looks at the provision of facilities and services to encourage a more physically active community. The “Beyond the Bell” initiative in which Council is a key partner addresses the issue of education attainment with the Great South Coast region having a lower than average rate of year 12 completion. In relation to employment, Warrnambool has low unemployment rates but certain sectors struggle to attract skilled workers.
- f) Local governments operate within a complex and shifting policy landscape. Future changes to regional development policies and grant allocation methodologies have a particular impact on the capacity of rural and regional councils to deliver services and plan ahead.
- g) The level and quality of digital connectivity is lower in regional and rural areas, creating challenges for service delivery and the application of technology-driven solutions. This is a particular challenge for councils that operate within mobile black spot areas. This is less of an issue for Warrnambool. Warrnambool is in a position to attract business and investment on the basis of strong digital connectivity coupled with lifestyle benefits. This investment attraction does come, however, at a cost in terms of delivering economic development initiatives.

Diminishing income

Loss of own source income due to commercial competition and changed patterns of use has materially affected Council's financial sustainability.

Actions and issues

Council has managed its cost base in response to the income losses. The net effect remains detrimental to the long-term financial sustainability of Council.

While many Councils balance ever changing income streams it is the quantum of loss and the concurrency with rate capping that has exacerbated the effect on Warrnambool.

Council continues to review the operations of these services. This is demonstrated by cost control action where significant income impacts have occurred.

Council continues to actively manage its resources to achieve the greatest return on investment or reduced level of subsidy. Council's quality of services remains at a level commensurate with community expectation, evidenced by feedback through service provision consultations and satisfaction data.

Council continues to review the offering to the community to ensure that the services offered are the best value for money. Council response to cost pressure and income pressure is measured by its legitimate role of competition to the private sector versus service pressure vs response to user pays principles

Outcome, analysis and options

Another significant factor contributing to Warrnambool Council becoming more marginal in its long term financial sustainability has been the loss of own source income. Warrnambool Council has had a reduction of several million dollars in own source revenue that had previously contributed to the consolidated revenue of Council and was able to be utilised for the cross-subsidy of other services or had minimised the impact of the net cost to the community.

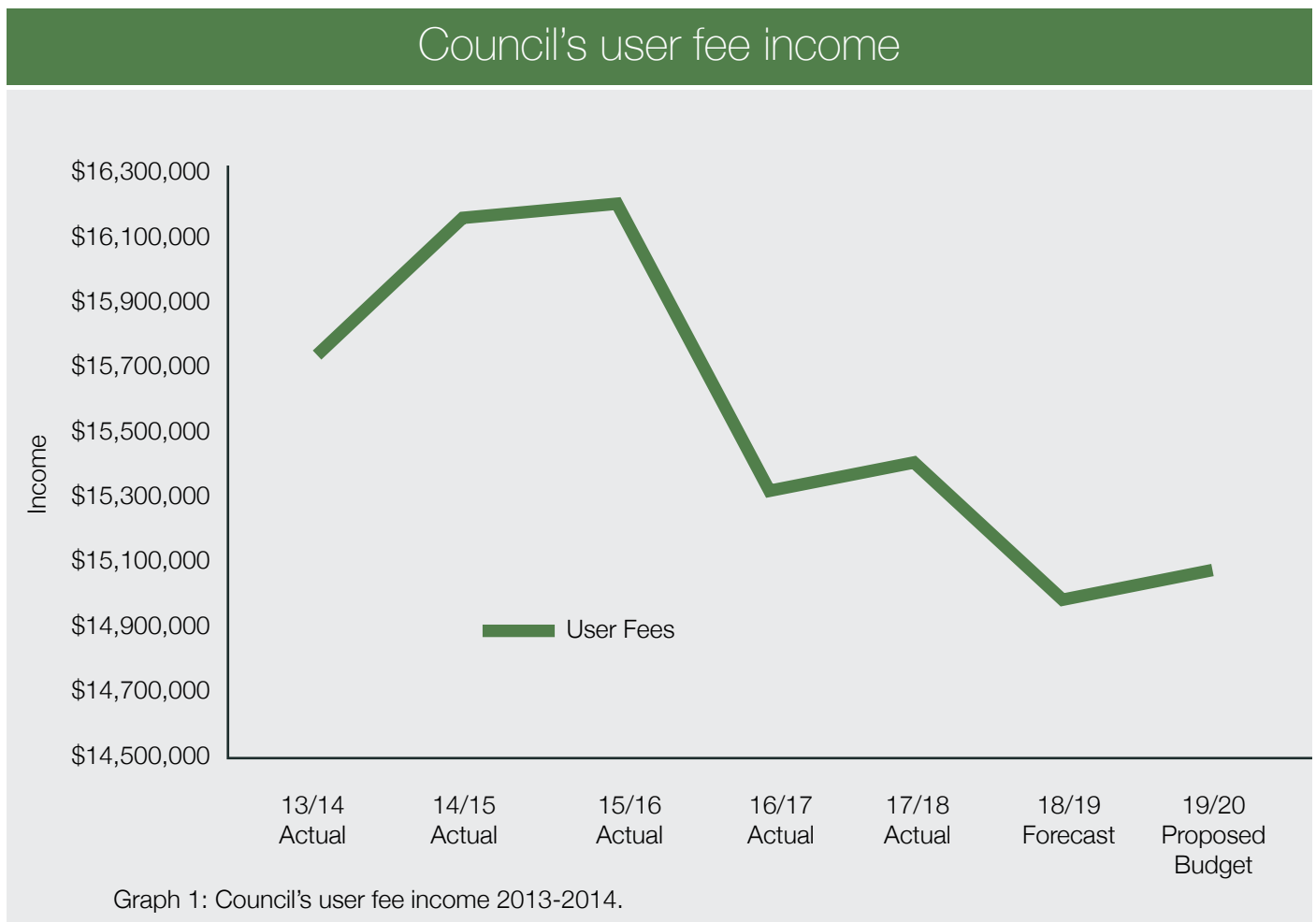


TABLE 3. Overall Council own-source revenue

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Total own source income Actual *	-\$39,355,784	-\$40,472,347	-\$40,109,641	-\$40,442,547	-\$39,999,475
Net year-on-year change		\$1,116,563	-\$362,706	\$332,906	-\$443,072
Change (%)		-2.76%	0.90%	-0.82%	1.11%
Overall increase in own source income 2013-2014 to 2017-2018 (%)					1.57%
Annual own source income if income rose by CPI rise		-\$40,536,457	-\$40,941,822	-\$41,515,007.30	-\$42,428,337
Annual CPI rise		3%	1%	1.9%	2.1%
Cumulative rise as per CPI of own source income					8%
Net annual difference between actual and increase at CPI, 2017-2018 figures					\$2,428,862.18

*Averaged Treasury funding to smooth Grants Commission prepayments.

Outlined below are several of the key program areas that have been affected over the past five years. Council has actively managed expenditure in these program areas to minimise the net impact, however, a material impact from the reduction of these sources of revenue has continued to affect Councils overall sustainability.

Many of these services are still highly valued by the community and whilst their cessation is and has been an option in some instances the impacts to the overall Council bottom line remains substantial.

Diminishing income - children's services; child care

Council operates three childcare centres, 10 kindergartens and facilitates family day care services for the community. Council provided these services over many years while there were few commercial operators in the region. This resulted in Council filling the gap in the market yet there were significant waiting lists in the childcare and kindergarten areas.

As a result of this dominant market share and high occupancy Council operated the services at an operating surplus of over \$400,000 per annum in 2013- 2014. Council made a decision to encourage the private and not-for-profit sector to establish in Warrnambool and pick up the shortfall so that all people requiring childcare were able to be accommodated.

This push was successful and resulted in increased choice in the regions for these services. However, increasing competition in the sector from commercial and not-for-profit providers saw Council's surplus reduced to a close to break-even position in 2017 -2018. With the resulting contribution to consolidated revenue made up through other revenue sources or cost cuts. Council continued to manage the decline through managing the cost base associated with these services however the impact to Council's consolidated revenue is a reduction in excess of \$400,000 per annum.

Table 4 highlights the reduction of income from this area. The income has dropped from an annual contribution of -\$ 6,952,846 in 2013- 14 to -\$ 5,867,723 in 2017-18 a loss of income equal to -\$ 1,085,123. This figure is further exacerbated when rising fees and subsidies over this period are taken into account.

Table 4. Reduction of income – childcare centres

Childcare centre income	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Family Day Care	\$1,203,373	\$1,205,161	\$754,252	\$505,124	\$499,977
Florence Collins Child Care Centre	\$1,932,434	\$1,991,693	\$1,817,463	\$1,784,048	\$1,840,520
Matron Swinton Child Care Centre	\$684,721	\$796,193	\$719,599	\$586,720	\$552,925
Sherwood Park Child Care Centre	\$675,922	\$796,045	\$728,417	\$624,535	\$555,976
Pre-Schools	\$2,356,928	\$2,074,325	\$2,036,485	\$2,327,695	\$2,293,909
Pre-School Field Officers	\$99,468	\$101,493	\$103,230	\$123,881	\$124,416
Total income	\$6,952,846	\$6,964,910	\$6,159,446	\$5,952,004	\$5,867,723

Table 5. Impact to consolidated revenue of declining childcare centre revenue

Childcare centre operations	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Income	(6,952,845)	(6,964,910)	(6,159,445)	(5,952,003)	(5,867,722)
Expenditure	6,455,191	6,769,749	6,308,657	6,031,131	5,822,473
Net	(\$497,654)	(\$195,161)	\$149,211	\$79,128	(\$45,250)



Diminishing income – South-West Livestock Exchange (saleyards)

Actions and issues

Increased direct competition, increased demands on infrastructure renewal and changed standards in animal care all put pressure on the bottom line of this business that had contributed positively to Council's consolidated revenue in the past.

Outcome, analysis and options.

Warrnambool Council has operated a regional salesyards for well over 100 years. The yards at their current site have operated since the 1970s. The salesyards had a peak sales volume in 2015-2016 and 2016-2017 worth in excess of \$100,000,000 in sales. The facility is ageing but well managed and efficient. In 2008 a private provider approached Council with a proposal to build new private yards on the outskirts of Warrnambool with the proviso that the Warrnambool yards close. Considerable community outcry occurred and the decision was made to maintain ownership and location of the yards in response to the community's advocacy.

In 2017-2018 a separate private partnership built a \$15 million salesyards in Mortlake, 50km from Warrnambool. The privately managed yards are in direct competition with the Warrnambool, Camperdown, Colac and Ballarat salesyards and are aiming to establish themselves as the dominant regional selling centre. All existing selling centres have remained operational and the selling market is now spread across all these yards.

Council and the community remain committed to the operation of the Warrnambool salesyards however the impact of a further dispersed selling market in addition the rise of direct selling and online sales has meant a diminished return to Council, which had previously contributed to consolidated revenue. Figure 4 highlights the net loss of contribution to consolidated revenue over the past five years and more particularly the net effect since the inception of rate capping. Council has responded by containing costs in the centre where possible and has increased efforts in partnership with the sale agents to have customers return. There is strong evidence that many buyers and sellers are returning to the Warrnambool yards but whilst the increased competition remains it will have an ongoing effect on the net operating surplus on the business. The current impact is a decrease of about \$280,000 a year to the consolidated revenue stream against the four-year net average.

Table 6. Impact of competition on the South-West Victorian Livestock Exchange

SWVLX operations	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Income	(1,225,324)	(1,509,281)	(1,433,873)	(1,243,545)	(1,029,822)
Expenses	890,954	967,459	961,730	903,116	891,397
Net	(334,370)	(541,822)	(472,143)	(340,429)	(138,425)



Diminishing income - Flagstaff Hill Maritime Village

Actions and issues

Flagstaff Hill Maritime Village is a recreated maritime village of the 1870s. Developed in the 1970s by community volunteers and situated on Crown Land, it was subsequently handed over to Council in the 1980s to own and manage. The role it plays is as a broader economic driver and tourist attraction. Council continues to grapple with what Flagstaff Hill achieves, its potential as a positive driver of the visitor economy and the cost to the community of delivering this service.

Council operates several businesses such as Flagstaff Hill and the Lighthouse Theatre that have significant positive flow-on effects for the community and the region but which receive little or no support to operate beyond Council's resources. Legacy issues mean that many stakeholders need to be consulted in the assessment and future development of a service such as Flagstaff Hill.

Outcome, analysis and options

Flagstaff Hill Maritime Village has an extensive artefacts collection and is a registered museum. The facility operates with a high level of volunteerism from the community.

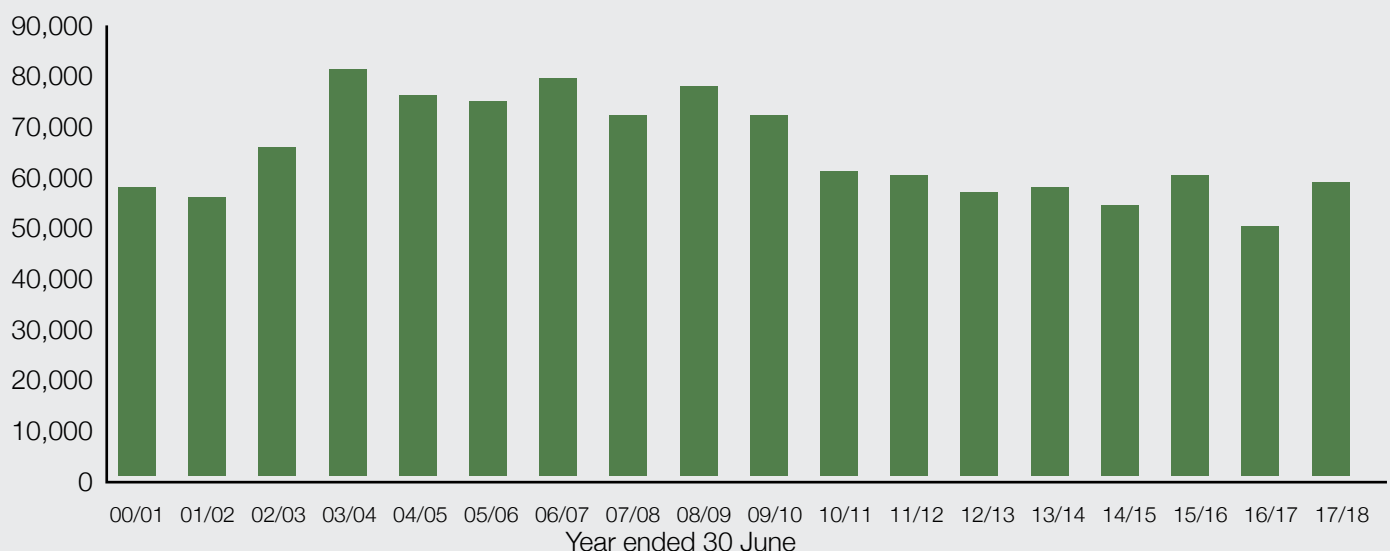
The Victorian Government has recognized the importance of the facility with several significant grants for capital improvements to the facility. The most recent being for the redevelopment of the light and sound show and urgent works to the façade and entrance of the facility. There is, however, no ongoing operating subsidy from the State despite this being a regional tourist attraction and on crown land.

As an efficiency measure, Council's Visitor information Centre is co-located with the facility. The synergies of these two services have enabled Council to contain some staffing costs.

The facility has waned in popularity over the past decade where consumers have many more alternatives and the style of experience is becoming dated to newer generations. A masterplan for the Village, Flagstaff Hill Maritime Village (FHMV) Master Plan & Investment Strategy was developed in 2013 (Appendix 5) which recommended the further commercialization of the space with accommodation options and changes to the visitor experience. Significant private sector capital would be required for this development. Changes to the sound and light show were a key step to arresting attendance decline, however, in order for the full outcomes of a masterplan to be realised, options need to be explored with potential investors and the Victorian Government.

Graph 2. Flagstaff Hill Maritime Village visitation

Visitation - Flagstaff Hill Maritime Village - Year ended 30 June 2001 - 2018



Options outlined in the 2013 master plan

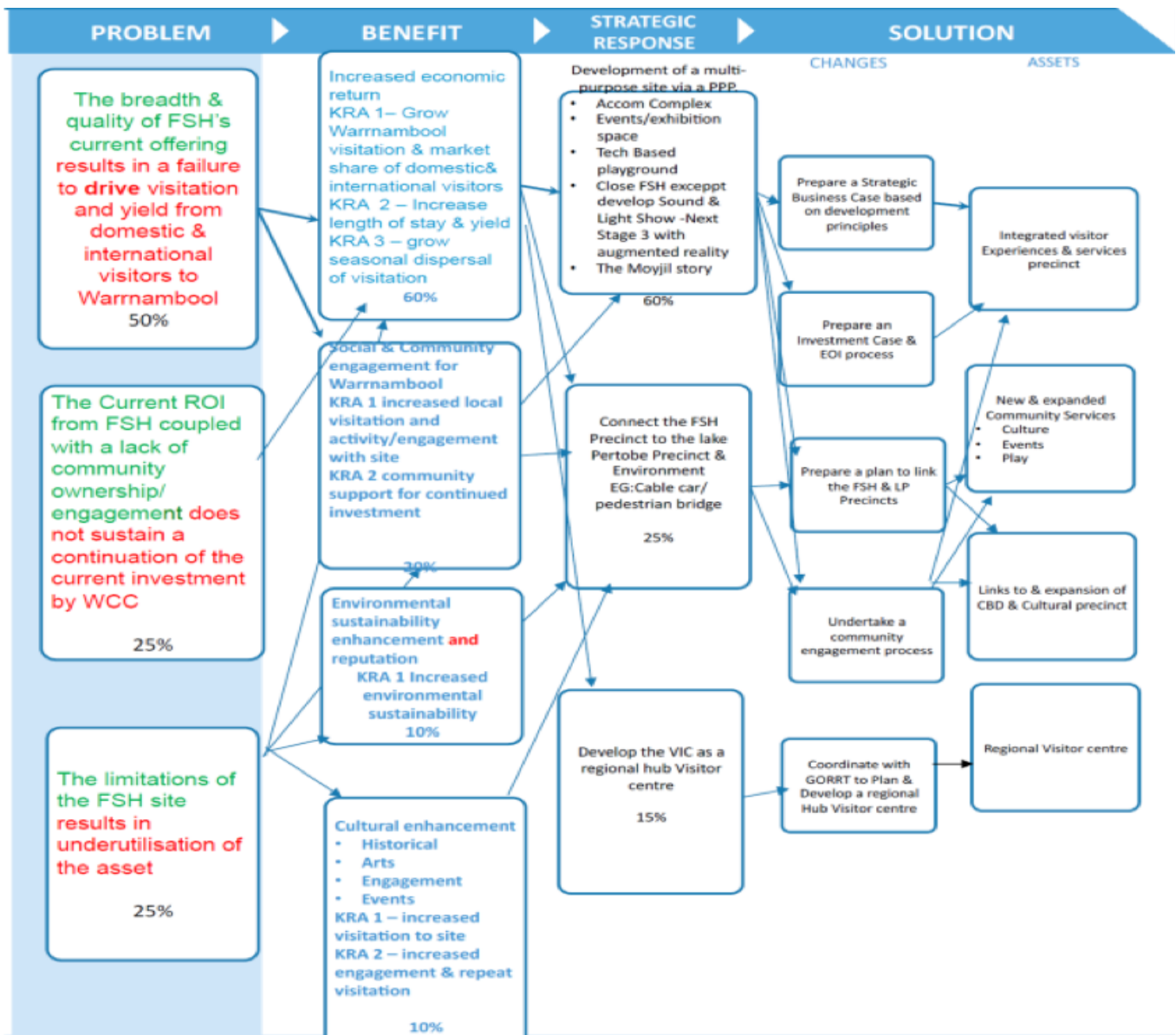
- | | | |
|----|--|-----------------------|
| 1. | Do Nothing | |
| 2. | Alternative Use of Site | |
| 3. | Minor Upgrade | \$4.8 million |
| 4. | Upgraded Interpretation and Maintain Shipwrecks Theme | \$12.8 million |
| 5. | Great Southern Ocean Experience | \$15.4 million |
| 6. | Great Southern Ocean Experience – Major Building and 4D Theatres | \$25.8 million |
| 7. | Preferred option – Great Southern Ocean Experience Alternate Use | \$14.8 million |

In 2014 Council did not support the implementation and associated funding of the major redevelopment option(s) but recommended that an interim development option be pursued, culminating in the \$3 million FHMV redevelopment, of which \$2 million was funded by the State Government. The redevelopment was completed in November 2017. Council continues to consider options around operating models that may be beneficial in reversing the negative impacts of the operations.

The financial burden on Council is increasing with rising costs and unmet renewal obligations. However, the facility still has strong attendances and is a feature of the broader South West tourism offering. Views on Flagstaff Hill within the Warrnambool community are polarised, with positive views on the volunteerism and community participation provided by the village, while a large number of residents have indicated that the current level of Council subsidy, \$859,061 in 2017-2018, is not sustainable.

Recent consultation indicated the community valued other facilities and services more highly than Flagstaff Hill Maritime Village. While Council subsidises other programs with only partial or no cost recovery, these services including the library, leisure facilities, art gallery, children’s programs, older adult programs and parks and gardens are more highly valued by the community. Flagstaff Hill draws criticism as a Council-funded facility established to benefit regional tourism and economic development without recurrent financial support from neighbouring municipalities or the Victorian Government.

Figure 1. Investment logic map, Flagstaff Hill Maritime Village.



Council is caught between not damaging the village experience and transitioning it to a future state. The time taken to plan and transform the facility would require ongoing financial support and seed money. Consequently Flagstaff Hill will factor into the mid-term as a key cost driver for the Council. The current trend of reduced income and higher costs continues to be a factor in the need to apply for a higher cap.

Table 7. Flagstaff Hill Maritime Village and Visitor Information Centre operating costs.

	2013/14	2014/15	2015/16	2016/17	2017/18
Income	(1,354,530)	(1,365,777)	(1,549,000)	(1,297,788)	(1,272,344)
Expenditure	2,051,746	2,025,718	2,273,909	2,376,953	2,131,405
Net	697,215	659,942	724,908	1,079,165	859,061

Diminishing income - Fun4Kids event

In 2018 Council made a decision to cease staging a major event – Fun4Kids. The event had been running for 19 years and was established to provide a fun, education experience for families and drive visitation to Warrnambool during the off-peak tourism season.

The event, while highly acclaimed, was experiencing a declining attendance and providing a diminished return to Council.

Outcome, analysis and options

Part of the proof of needing to come to a variation to the rate cap centres on the actions within Council's control that have been taken to ensure an ongoing financial sustainability. The previous two examples have focused on the continuing net effect of decreased contributions to consolidated revenue. This example focuses on the reduction of services and redistribution of resources to respond better to community need.

Warrnambool operated a nationally recognized and awarded festival called Fun4Kids held during winter each year to attract off-season tourism to the city. The highly acclaimed, national award-winning event drew large crowds locally and from throughout Victoria in its early years and at its peak had attendances over 25,000.

The event was highly valued by large sections of the community and large numbers of volunteers participated in the development and delivery of the program each year

In 2017 Council undertook a review of this event and in the broader context of the new Warrnambool Events Strategy 2018 -2022 (Appendix 6), determined that too high a proportion of the organisation's resources were being used for an annual event and that resources would be better used to seed a greater number of events and more diverse events across the year. Council repurposed staffing resources, reduced the operating costs and refocused its events provision to do more, more often, rather than a single national event. Figure 9. gives a breakdown of the deteriorating attendances. Work was undertaken to contain costs before a final decision was made to reallocate the funds.

Council continues to make strategic decisions in an informed manner, in consultation with its community and with the view of remaining financially sustainable whilst trying to respond to the aspirations of the community.

Table 8. Fun4Kids operations and return on investment over time

Year	Actual \$ (net cost)	Tickets (#)	Est. bed nights (#)	Est. economic impact (\$)	Est. direct ROI	Est. subsidy per ticket*
2013	\$467,828	22,217	12,258	n/a	n/a	\$21
2014	\$646,846	19,758	11,680	\$870,383	1 : 1.3	\$32
2015	\$424,207	14,888	9,483	\$709,314	1 : 1.2	\$28
2016	\$472,380	13,452	7,672	\$609,281	1 : 1.3	\$35
2017	\$441,187	12,102	9,378	\$503,778	1 : 1.4	\$36

From this Council then resolved

"That Council:

1. Discontinue the Fun4Kids Festival effective from this year;
2. Agree for a level of funds (est. \$100,000) be allocated towards activating an alternate events program to replace Fun4Kids in 2018-2019;
3. Agree for estimated savings in the 2017-18 budget (\$95,000) and 2018-19 budget (\$160,000) be placed in to consolidated savings to assist with current and/or future budget priorities;

Note that a decision on the future level of funding to meet the objectives of the Warrnambool Events Strategy 2018-2022 from 2019/20 onwards will be subject to Council budget approval."

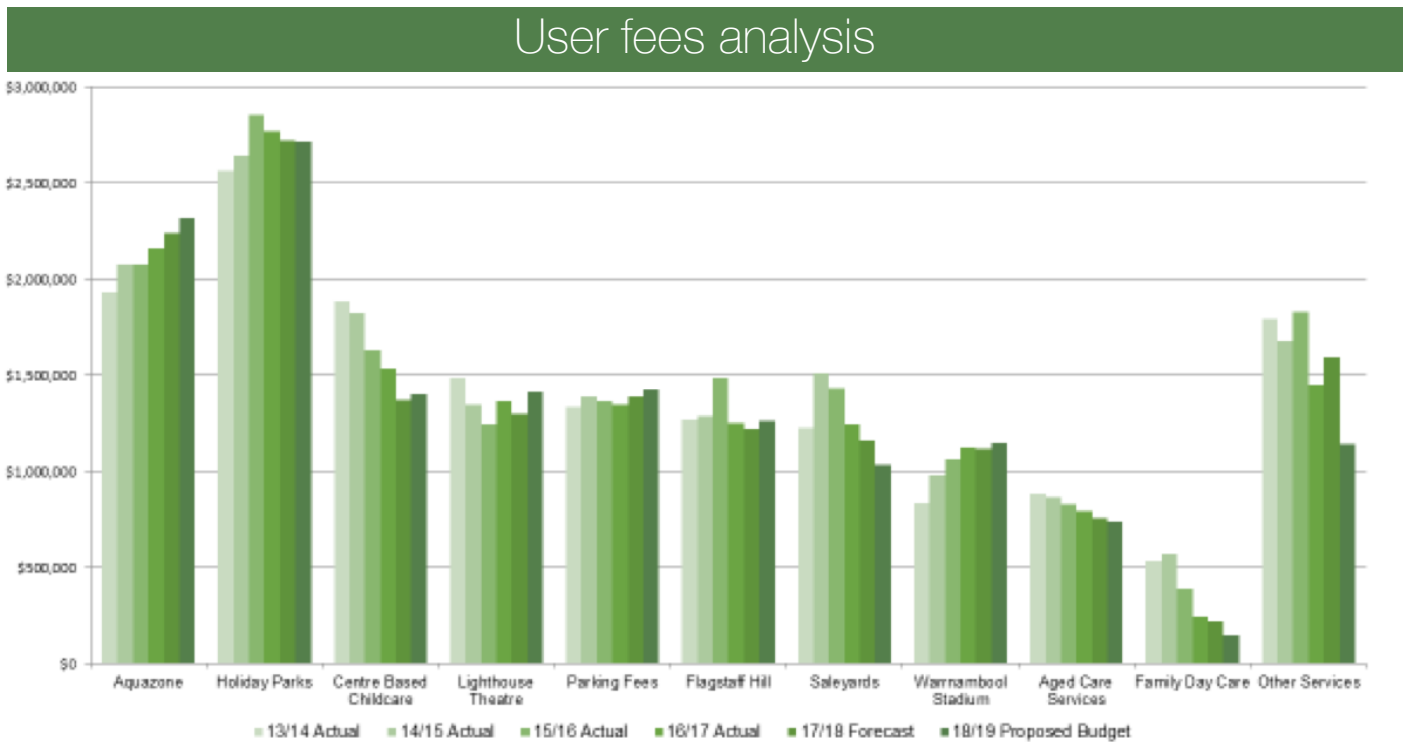
Diminishing income - user fees trend

Actions and issues

Council has sought to offset its overall loss of income by increasing fees and charges in a number of discretionary areas, being mindful of the community's capacity to pay and principles of equity and fairness.

Council continues to examine new fees and charges to ensure equitable sharing of the burden of service costs.

Graph 4. User fees trends across a range of Council services.



Overall, the trend in Council's ability to rely on own source income has been negatively affected and the trend is seen to continue for the foreseeable future with the exception of our Holiday Parks and Warrnambool stadium. Council continues to examine new sources of user pays and reviews the balance between the negative community impact of this, the cost of collection and administration and the net benefits derived from increases.

A future impact is anticipated at Council's aquatic centre, AquaZone. AquaZone is set to reach a limit on the customers it can accommodate in peak times in the near future. Increases in ongoing costs are likely to outstrip the increases derived from fee increases and there will be very limited capacity to derive significant benefit from off-peak periods and programs.

Warrnambool has historically had a significantly lower reliance on rates to fund its breadth of services. This comparison is true when comparing to either other regional centres or when compared to all other Councils.

Negative effects on our own source income are not able to be covered by the CPI rises in our rate base as they account for a smaller starting proportion of our revenue base.

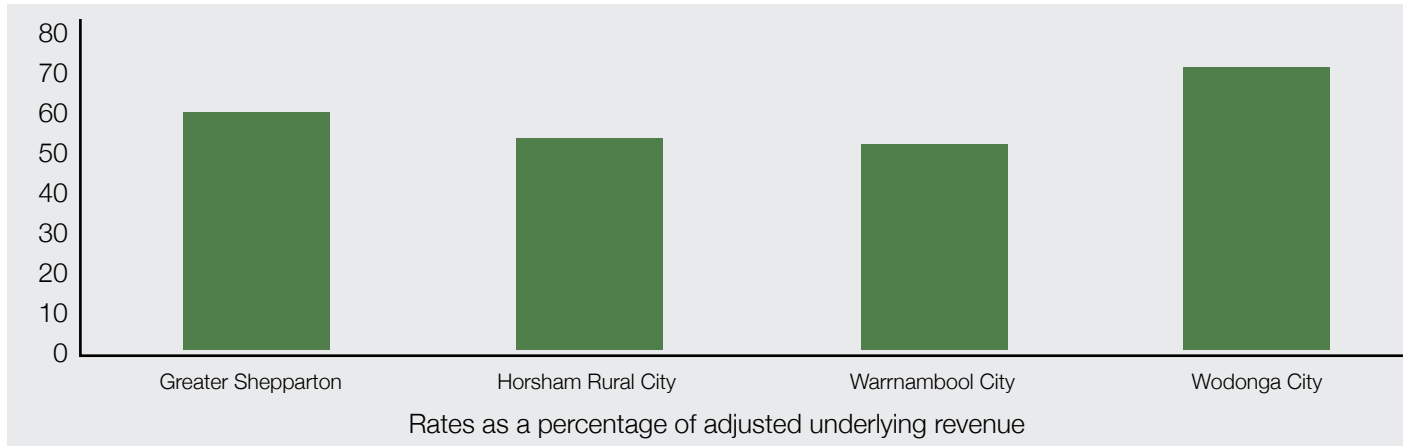
In summary:

- Warrnambool provides many services functioning as a regional centre;
- Warrnambool has a smaller rate base compared to similar regional cities;
- Council has no new major sources of revenue; and,
- Council is not able to cover significant other source income losses with capped rate revenue.

Rates as a percentage of adjusted underlying revenue

This is calculated with rates raised for the year divided by total revenue excluding non-recurrent government grants received for capital purposes, contributions for capital works and the value of assets received from developers.

Graph 5. Rates as a percentage of adjusted underlying revenue



Source: Know Your Council, Victorian Government.

Table 9. Rates as a percentage of revenue – state average and average of comparable councils.

Item	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
All Council Average	57.46%	63.99%	57.59%	59.55%	64.31%
Warrnambool City	47.81%	51.70%	50.43%	51.34%	54.87%
Similar to Warrnambool City Council Average	55.48%	62.26%	57.82%	58.38%	63.37%

Source: Know Your Council, Victorian Government.

Cost shifting

Over time, State and Commonwealth governments have imposed additional costs and responsibilities on to Local Government and in many instances have failed to properly resource these services provided on their behalf.

While Warrnambool is in the same position as other councils with regard to cost-shifting, the added pressure of cost shifting is a continually growing financial burden that has a detrimental effect on the long-term viability of Council. It is another factor that leads Council to consider an application for a variation above the rate cap.

Cost Shifting for Specific Services

1. Home and Community Care (HACC) - \$180,000 from 2011/12 to 2015/16
2. Library Services - \$126,000 from 2011/12 to 2015/16
3. Maternal and Child Health - \$106,000 from 2011/12 to 2015/16
4. School Crossing Supervision - \$87,000 from 2011/12 to 2015/16

This trend is set to continue with an increase in local authorities responsibilities (and cost) evolving in emergency management and rural drainage.

Council has a reduced capacity to respond to financial variances and there remains an expectation to respond to State priorities on local issues.

Council was recently asked by the Victorian Government to financially support a private airline operation to ensure the company continued to provide an air passenger service between Melbourne and Portland, via Warrnambool.

Roads gifted to Council

In early 2019 VicRoads “gifted” several sections of road to Council and took over management of some sections of road previously managed by Council. The net effect of all changes was an additional 6,630sqm of typically poor condition roads shifting to the responsibility of Council.

Under the changes VicRoads removed all references to property lines and now refers to stop/give way line marking or traffic islands and changing setback distances.

The example below shows the intersection in Bushfield of Council-managed Reddie Road and VicRoads-managed Bridge Road. Under the previous arrangement Council was responsible for road maintenance up to the red line. Under the new arrangement Council now must rehabilitate and continue to inspect and maintain up to the blue line. There are 65 instances of similar intersections across the Warrnambool municipality ranging up to 450sqm in size and totalling 7532sqm. The total capital replacement cost of this road area is \$730,000 and many are already in need of rehabilitation.



The picture above shows the area of the Reddie and Bridge roads intersection handed over to Council by VicRoads.

Managing State-owned assets

This form of cost-shifting is amplified where Council manages assets on behalf of the State. It does so as local authorities are seen as best placed to undertake maintenance and managerial responsibilities. Council, as the manager of Crown land, is required to provide, improve and maintain large areas of land for community use.

The long-term effects of this however is an expectation, often written into agreements, that Council provides large amounts of ongoing capital for the development of State-owned assets.

Examples are:

Port of Warrnambool: Council is required to provide \$620,000 towards a \$3.2 million upgrade of boat launching facilities;

Reid Oval: provision of a premier regional sportsground capable of hosting national events located in Warrnambool because of our regional capital role. Council contribution to upgrade the sports ground is in excess of \$3 million towards a \$10 million-plus project. All of Council's active sports fields are located on Crown land and their upkeep and enhancement is the responsibility of Council.

North Warrnambool Flood Mitigation Project: this \$4.1 million emergency management project included an additional culvert, floodplain contouring and the construction of flood walls along Russells Creek, which is Crown Land. The project received Commonwealth and Victorian government funding along with a \$1.37 million contribution from Council. Council operates and maintains the flood walls.

Flagstaff Hill Maritime Village: Council contributed \$500,000 towards a \$3 million upgrade of the tourism attraction on State-owned land.

Lake Pertobe precinct: Council is contributing \$1.45 million towards and initial \$2.9 million upgrade of the precinct.

The upgrade is the first in a series of improvements identified in the Lake Pertobe Master Plan which received broad community endorsement.

In contrast to the above examples Council has been able to generate income by establishing holiday parks on Crown land along the foreshore. The building, renewal and maintenance of the holiday parks has been funded entirely by Council and there is limited security of tenure. The parks are a major drawcard for the region and contribute significantly to the regional visitor economy.

An example of a service benefiting the region and accommodating State services is the Warrnambool Regional Airport. The airport is situated on Council-owned land and serves as the base for the Victorian Government's air ambulance service to the region, private aircraft owners and a commercial air passenger operation. The airport was upgraded four years ago with funding from the Victorian Government (??), Commonwealth Government (??) and Council (??)

Where a local authority has an ample resource pool, this symbiotic relationship serves the community well. Where a Council such as Warrnambool has constrained resources it is difficult to maintain and improve these State-owned assets.

While one option to reduce costs would be to return the management of these assets to the Victorian Government, the reality is that this is a complex proposition that could result in the local community becoming disadvantaged as the benefits for improvements and development often are reflective of local needs not necessarily of State priorities.

Warrnambool City Council's Asset Renewal Gap

Council is seeking to reduce its asset renewal backlog and sustainably fund renewal going forward. Nominally council began this year with a renewal backlog of over \$16 million (Appendix 7).

Council wishes to reduce the impact on the community of the costs of unsustainable asset provision by proactively renewing and maintaining its assets and extending asset life where possible.

Council wants to ensure the right assets are available to the community for the right purpose at the right time in the right form.

Council's view is that a sustained effort is required to fund the shortfall with increases in renewal and replacement being amortized over the next 15 year horizon.

The growing asset renewal gap facing Warrnambool is the major driver behind seeking a higher rate cap.

An asset renewal gap is an issue facing local governments across the country. Warrnambool, because of the structural anomaly arising from amalgamation, regional service provider role, loss of own-source income, cost-shifting and ongoing call to contribute to State-owned assets, is faced with a reduced capacity to deal with this shortfall.

Council also faces an escalating burden in the mid to long-term as major assets come to the end of their useful life. Many of the major facilities of Council are quickly reaching the end of their useful life and no longer are meeting the needs of a growing and aspirational Regional City.

The gross replacement value of local government infrastructure for all Australian councils is estimated at \$438 billion, and \$47 billion of these assets are in poor or very poor condition (Australian Local Government Association, 2015). In addition to the alarming cost of poorly conditioned assets nation-wide, the Victorian Auditor-General's Office found in a 2014 report that:

"Spending on existing assets is not keeping pace with the consumption of these assets. Audited councils are not able to meet existing asset renewal requirements, resulting in cumulative renewal gaps growing every year. This situation is likely to adversely impact the condition of assets, service levels and councils' long-term financial sustainability" **(Victorian Auditor-General's Office, 2014).**

Council manages infrastructure assets of an approximate total replacement cost of \$600,000,000. These assets are utilised by Council Service Managers to support the delivery of services to the community. In order to ensure an ongoing satisfactory standard of Council's services, the assets on which they hinge must be managed in a manner which prevents unacceptable deterioration and meets the needs of the community for their intended use.

Council has in place an Asset Management Policy to ensure Council manages and provides assets in a sustainable manner in line with the required levels of service based upon the vision adopted by Council. Key policy objectives are:

- Ensure that Council's legal obligations are met;

- Asset management is to be integrated with the organisation's corporate processes, including business plan, budget and reporting procedures;
- A "whole of life" cost approach shall be used to determine financial requirements for all assets;
- Provide infrastructure assets that support services that are appropriate, accessible, responsive, and sustainable to the community; and
- Ensure that the roles and responsibilities of asset managers and users are well defined and understood with respects to ownership, control, accountability and reporting.

Council also has in place an Asset Management Strategy which provides focus on the actions and requirements necessary to implementing the Asset Management Policy. Key Strategy objectives are:

- **To provide for the service needs of our community:**
 - by ascertaining service level needs through a community consultation process
 - by focussing on outputs and outcomes with a view to continuously improving the match between service requirements and service delivery
 - by ensuring our assets are appropriately used and maintained
- **To optimise the service potential of our assets:**
 - through effective management of our existing assets
 - through flexibility of our asset base
 - through rigorous planning, evaluation and budgetary processes
 - by using economies of scale for more cost effective service delivery
- **To maximise value for money:**
 - by taking account of the full costs of holding, using and disposing of assets throughout their life cycles
 - by ensuring asset management decisions are responsive to performance measurement and monitoring
 - by producing costed options for the delivery of asset services.
- **To contribute to economic growth:**
 - by appropriate matching of assets to meet service delivery demands
 - by ensuring that all asset management decisions are made within the context of Council's overall resource allocation and management framework
- **To assign responsibility and accountability:**
 - by clearly defining ownership and control of assets through asset information systems that meet both government and management decision making requirements
 - by determining and communicating accountability and reporting responsibilities throughout each step of the integrated approach to asset management
- **To promote balance between development and sustainability:**
 - by balancing the demand for new assets through the use of non-asset service delivery alternatives where appropriate
 - by making asset decisions that consider and protect the needs of future generations
 - through consideration of asset renewal and rehabilitation options wherever feasible
- **To minimise risks to the community and to Council's financial viability:**
 - through the application of risk assessment and reduction strategies
 - by regular condition audits consistent with the criticality of the various asset categories
 - through the delivery of appropriate asset maintenance and renewal programs

A detailed assessment was prepared for Council by our assets and infrastructure team to assess what the quantum of resources are that will be required to reduce the current renewal backlog and perceived renewal gap projections to a more manageable and sustainable level.

In addition to the projected renewal contributions Council continues to lobby to other levels of government to facilitate major initiatives around its assets that provide both renewal and upgrade opportunities through grant funding.

Council continues to seek efficiencies in its operations to mitigate the impact of funding shortfalls (Appendix 5 and 6). Council is committed to continually improve in this area and has in the pipeline a structural review to ensure there is an appropriate allocation of Council resources and Council is participating in a bid for a grant to implement a shared information technology service across three municipalities.

Through the preparation of annual budgets Council constantly reviews service provision and service levels while endeavouring to meet growing community expectations around the scope and standard of services.

It is likely that into the future other levels of government will continue this support of asset development. Regardless, a

significant shortfall in renewal remains and Warrnambool is reasonably seeking to improve its contributions in this area to reduce the impacts on the community of failing assets.

Rising aspirations of a growing regional centre

A range of community engagement activities over recent years have emphasised the aspirational nature of the Warrnambool community.

This has led to a series of proposals, driven by the community, for major infrastructure projects and services. Strategies and plans for these assets and services are developed in response to community demand and allow Council to prioritise efforts, to ensure services and assets meet community needs, to plan renewal and to provide evidence of a strategic planning approach when seeking external funding.

There is a growing expectation from other levels of government that projects are close to “shovel ready” at the funding application stage.

Reid Oval: implications, will result in reduced usage of the oval with increased use of other ovals leading to change of costs for other ovals to accommodate the shift in use.

Increased cost of maintenance will be about \$150,000 annually, an increase of about \$50,000.

Library: South West TAFE has received a Victorian Government grant of \$16.5 million to build a new shared library service. Council is making a \$3 million contribution towards this facility and the development will lead to an increased annual operating cost of an additional \$500,000.

Footpaths and connectivity: the community has indicated to Council that the footpath network requires enhancement including creating mission connections within the network. This will incur cost in the creation of the asset and in the long term, an increase in maintenance and renewal costs.

Carbon neutral, waste minimisation: the rollout of a Food Organics Garden Organics (FOGO) collection is a significant component of Council’s push to become a carbon neutral organisation, as outlined in the Council Plan. The W2040 community plan and Council’s Green Warrnambool plan set more ambitious goals about the municipality becoming carbon neutral over the next two decades (Appendix 7).

Warrnambool Art Gallery: Council is investigating issues at the gallery in relation to temperature and humidity controls, the availability of space and digital archiving. The gallery’s capacity to host touring exhibitions is impacted by strict requirements around climate control and security. A feasibility study will provide an indication of costs required to resolve some of these issues.

The community expects to see major exhibitions and touring exhibitions at the Warrnambool Art Gallery.

AquaZone: new aquatic centre outlined in W2040 to cope with growing population. Existing centre is ageing and approaching capacity.

South-west Victorian Livestock Exchange: renewal of existing infrastructure and upgrades including a new roof required to meet changing expectations and requirements around animal welfare, client amenity and workplace safety.

City Centre Renewal: the initial \$18 million project was the first element of work outlined in the City Centre Revitalisation Plan adopted by Council in 2013 (Appendix 8).

Lake Pertobe Precinct: the Lake Pertobe Master Plan details considerable improvements to facilities, amenity and connectivity. In March 2019 Council received a Victorian Government grant of \$1.45 million to go towards the first stage of master plan implementation. Council is required to match this grant. The cost of implementing all works contained in the master plan is \$11.5 million (Appendix 9).

Warrnambool Botanic Gardens: the Botanic Gardens Master Plan details work including improved pathways, irrigation systems and playspaces. The initial implementation has included the construction of new toilets, funded by Council at a cost of \$350,000. The plan details a list of priorities and unfunded actions (Appendix 10).

Active Warrnambool: Council’s sport and recreation strategy, Active Warrnambool, examines the city’s needs and aspirations for the next decade and considers areas including women in sport, soccer facilities, Warrnambool Stadium. The strategy links to the Health and Wellbeing Plan objectives, the Council Plan and the long-term community plan, Warrnambool 2040. The action plan associated with this strategy outlines a series of programs and works that will require considerable resourcing (Appendix 11 and 12).

Playgrounds: the draft 2019 Playspace Strategy outlines a shortfall to maintain current play assets in the order of \$300,000 at the existing standard which does not meet community expectations (Appendix 13).

Port of Warrnambool: the port is a State-owned asset and comprises key elements including a breakwater and boat launching facilities. The 130-year-old breakwater is in need of stabilisation work that has an estimated cost of \$7 million (Appendix 14).

The community has been vocal about upgrading boat launching facilities and a plan to upgrade these facilities has been developed with the proposal having an estimated cost of \$3.2 million, of which Council would be required to contribute 20 per cent should a grant application to fund this project be successful. Council has twice been unsuccessful in obtaining Victorian Government funding to upgrade the boat launching facilities, with this funding stream highly competitive and comprising about \$6 million which has to be shared between many port facilities across Victoria.

The regional role and its financial implications

There are growing requirements to match regional infrastructure grants, upgrades and maintenance by Warrnambool City Council on behalf of the region.

As the regional centre for the South West, Warrnambool is home to a number of facilities that serve the region. This also means that the financial burden of matching or contributing to external funding for these regional assets falls entirely on Warrnambool and not the surrounding municipalities who benefit from any renewal, upgrade or new assets. Renewed or new assets often result in increased maintenance costs and again these costs are borne solely by Warrnambool.

Examples of this are:

Reid Oval: \$3million to \$5 million contribution, \$50,000 per annum additional ongoing maintenance cost.

Library: \$3 million, \$500,000 per annum additional ongoing operating cost (Appendix 15).

Regional airport: The airport was upgraded four years ago with funding from the Victorian Government (\$4.072 million), Warrnambool City Council (\$750,000) and Moyne Shire (\$100,000). This has resulted in a \$75,000 per annum additional ongoing maintenance cost.



Views of ratepayers and the community

For its 2016-2017, 2017-2018 and 2018-2019 budgets Warrnambool City Council made a decision to seek efficiencies rather than pursue a variation to the rate cap.

The foreshadowing of a rate cap variation was made in the Strategic Resource Plan (SRP) of 2018-2022 which contained within the Council Plan (2018 revision).

In its SRP Council forecast the following variations to the rate cap:

Table 10. Forecast rate variation

	2019 %	2020 %	2021%	2022 %
Consumer Price Index	2.25	2.5	2.5	2.5
Rate cap	2.25	2.5	2.5	2.5
Rate cap variation	0.0	2.0	2.0	2.0
Wages growth	3.0	2.5	2.5	2.5
Grants (operating)	1.5	1.5	1.5	1.5
Statutory fees	2.0	2.0	2.0	2.0
Investment return	2.5	2.5	3.0	3.0

Source: Warrnambool City Council Strategic Resource Plan 2018-2021, page 5.

Media coverage and promotion

Prior to the Council decision in December 2018 to advise the ESC that it would seek a variation to the rate cap, Warrnambool's daily newspaper, The Standard, published a story informing ratepayers that Council was considering "jacking up rates beyond the state government's cap for the next four years..."

<https://www.standard.net.au/story/5786949/rate-hike-city-council-seeking-to-apply-increase-above-government-cap/>

Following the decision at the Council meeting on December 3 The Standard had run a poll entitled "Do you support a Warrnambool City Council rate rise?"

<https://www.standard.net.au/story/5792103/poll-do-you-support-a-warrnambool-city-council-rate-rise/>

The yes/no poll drew overwhelming opposition to a rates rise:

<https://www.standard.net.au/story/5796970/poll-results-do-you-support-a-warrnambool-city-council-rate-rise/>

Following the December 3 decision Council issued a media release announcing the news and explaining the process. The media release "Starting a conversation about rates and services" was posted to the Council website on December 12, 2018.

The screenshot shows the Warrnambool City Council website. At the top, there is a navigation menu with links for COUNCIL, RESIDENTS, PROPERTY, COMMUNITY, BUSINESS, and DISCOVER. Below the menu is a large image of a playground. The main content area features a headline: "Starting a conversation about Council rates and services" with a sub-headline "NEWS ARTICLE DATE: Wednesday, 12 December 2018". The text below explains that at its December meeting, the council decided to consult with the community on seeking a variation to the rate cap. It mentions that the council also decided to advise the Essential Services Commission (ESC) that it intended to apply for a rate cap variation. The council will make a final decision on whether to seek a rate cap variation by March 31, 2019, following the community consultation. The council is seeking a variation to the rate cap to allow for a further opportunity to review any changes to the rates through Council's next budget process. Council is seeking a variation to the rate cap to allow for a further opportunity to review any changes to the rates through Council's next budget process. Council is seeking a variation to the rate cap to allow for a further opportunity to review any changes to the rates through Council's next budget process. Council is seeking a variation to the rate cap to allow for a further opportunity to review any changes to the rates through Council's next budget process.

Following the creation of the online survey on rates and services the following media release was posted to the website on December 23, 2018.



The survey received considerable coverage in the local media including page one of The Standard on December 28, 2018.

<https://www.standard.net.au/story/5829270/city-council-survey-have-your-say-on-rate-rise-plan/>



The survey findings - synopsis

A total of 782 respondents took the survey. Overall, respondents indicated that increasing fees, finding alternative providers or cutting services were preferred over rate increases, although commentary and correspondence indicated a general reluctance to see services reduced.

Of the two options to raise more funds (increasing rates or fees) to cover services, increasing fees was clearly preferred over rates, particularly for those services generally considered to be of lower importance to respondents.

Relative to other options there was moderate support for rate increases to cover infrastructure including roads, parks and gardens, footpaths, street lighting and bridges and for the service of school crossing supervision.

The top three groups of people Council should prioritise service delivery for were older people, people with a disability and children while the service categories considered highest to lowest priority were: community health and wellbeing; caring for the environment; urban development, infrastructure and transport; sport, recreation and culture; economic development and regional leadership; and corporate services.

The survey also examined how people valued Council services. The 10 most valued services were:

1. Waste management
2. Roads
3. Footpaths
4. Parks and gardens
5. Emergency management
6. Lighthouse Theatre
7. Sportsground management and maintenance
8. Drainage and stormwater tunnels
9. Warrnambool Library
10. Health Services

Survey findings – service cuts

Support for cuts to Council services existed in a small number of services. The service which the greatest number of respondents indicated they wished to see reduced was the Food Organics Garden Organics (FOGO) collection. It was thought that this was mostly a reflection of those yet to receive the service which was still being rolled out across the municipality. A separate 2018 survey by Council of those receiving the FOGO service revealed the service was used and had significantly reduced the volume of material entering landfill. It is expected that Council would receive similarly positive feedback as the service is rolled out across the remainder of the municipality.

Other services which attracted higher numbers in favour of cutting services included animal control, city sustainability and Flagstaff Hill Maritime Village.

In relation to animal control the Domestic Animals Act gives councils responsibility for registering and controlling dogs, cats and domestic animal businesses in their municipality. The Act requires Councils to have a Domestic Animals Management Plan, which then requires resourcing. The plan promotes responsible pet ownership and also requires dangerous dogs, menacing dogs and restricted breed dogs to be identified and kept in a way that reduces risk to the public. Pet registrations are put towards running the pound, which is operated by the RSPCA.

Survey commentary frequently suggested that Council should maintain services and reduce costs through efficiencies.

Survey findings – increasing user fees

This funding solution saw a correlation between support for increasing fees and services considered of lower importance (Appendix 2).

For example, increasing fees at the Warrnambool Gymnastics Centre was seen as the best funding solution (this funding model is already in operation at the Gymnastics Centre).

Similarly, it was felt the fees at the Warrnambool Stadium could be increased in preference to cutting the service. The greatest support for an increase in fees was for the Warrnambool Regional Airport.

There were exceptions to the trend of least valued services being covered by fee increases and these applied to highly valued services including the Lighthouse Theatre, the Library and Aquazone.

Increasing fees was a popular funding solution for early childhood services including kindergartens, parenting and maternal child health, centre-based childcare, family day care and after school care and vacation care.

Survey findings – increasing rates

Compared to other funding solutions increasing rates was less popular although there was some support for increasing rates for infrastructure including street lighting, parks and gardens, roads, footpaths and bridges while services including emergency management and school crossing supervision drew some support for a rate increase.

Survey finding – seeking alternative providers

There was considerable support for finding alternative providers to empty public place bins, provide stormwater and drainage tunnels, to maintain the Port of Warrnambool and to provide street sweeping and bridges.

A number of Council services are already delivered by alternative providers or contractors, notably the collection of waste and most road building and repair.

Trade-off discussions – focus groups

Three focus group sessions were held to discuss ways to address funding shortfalls.

There were 31 participants in the sessions who represented a range of community views and groups such as sporting clubs and the Warrnambool Ratepayers' Association.

Key findings included that Council should exhaust all other options before seeking a variation to the rate cap increase. Participants felt other measures such as looking for internal efficiencies and reducing project expenditure could bridge the deficit. It was suggested that non-essential projects could be put on hold until Council was in a better financial position. Participants agreed fees should be increased for services such as the airport where there are currently no or limited user-pays fees to use the airport. When discussing access to sporting clubs there some agreement these fees could increase, particularly if a club had gaming machines attached to it, however fees for lower income and pensioners should not be increased to ensure equity of access.

There was a shared view among participants that Council should seek alternative providers who can provide the same or better levels of service at a reduced cost. In all three sessions questions were raised about why Council was delivering particular services that may be better managed by the private sector, such as Flagstaff Hill Maritime Village. Participants agreed that services which support vulnerable segments of the community should not be cut. Participants were willing to see a cut or reduction in service levels of non-basic services which could be delivered by the private sector. Notionally, participants supported the idea of sharing services with neighbouring local governments as an efficiency mechanism.

For each shortfall funding lever participants were asked to rate their general level of support from one to five. The responses were tallied and are shown in the table below.

Shortfall funding lever	Average score	Most selected score
Increase fees	3.2	5
Increase rates	1.9	1
Seek alternative provider	3.7	3
Cut services	3.2	3 and 4

Table 11. Focus group participant level of support for shortfall funding levers.

Operational efficiency

Council is constantly striving to operate more efficiently. A range of efficiency measures is outlined in two Efficiency and Improvements reports (Appendix 16 and 17).

In addition Council, with Corangamite Shire and Moyne Shire councils is well advanced in the preparation of a joint Business Case application to the Rural Councils Transformation Program (RCTP) for the implementation of a shared Enterprise Resource Platform (core ICT systems).

The Shared ICT Project has an estimated cost of \$4.5 million dollars which would be fully funded under the RCTP program, if the application is successful, without the requirement for matching contributions from the participating councils. The ultimate aim is to improve services and reduce costs through a shared Enterprise Resource Platform.

An aspirational community

The community has demonstrated over several years that it does not wish to be a “business as usual” community. Through a range of community engagement activities the community has indicated it is ambitious, aspirational and committed to improving the quality of infrastructure, liveability, to building the economy and to setting challenging environmental goals.

The following information describes the consultation undertaken for a range of Council projects.

City Centre Renewal

The Warrnambool community had over a long period of time expressed a view that the CBD required renewal. In 2008 consultation with the community began which led to the Warrnambool City Centre Structure Revitalisation Plan (Appendix 18). This in turn resulted in the development of the City Centre Renewal Plan. Consultation for the City Centre Renewal was extensive and confirmed not only support for the renewal but also provided feedback that formed the basis of the design for renewal.

Prior to any design work a significant public engagement and community planning process included:

- establishment of a pop up shop (face-to-face conversations with 200+ people)
- project launch (attended by 80 people)
- online survey (participation from 72 people)
- Enquiry by Design workshops (120 people)
- design concepts feedback briefing (40 people)
- group sessions (60 people)
- submissions on design concepts (109 submissions)
- project site traders networking session (20 businesses)



Through this engagement process the community identified that it wanted to see the city centre renewed to create:

- **Provide universal access** so all people, including those with disabilities, the elderly, and parents with children or prams, are able to enjoy the City Centre experience
- **improve functionality** of the City Centre with activity nodes, new street furniture, better lighting, smarter use of shop front parking and well defined links between laneways and off-street car parks
- **improve the pedestrian and cyclist experience** calm traffic, improve visibility and create a shared roadway that is safe for pedestrians and cyclists
- **encourage economic growth** of the City Centre through an increase in employment opportunities, property investment and tourism spend
- **create attractive spaces** to draw people to the city centre where they can enjoy the services and atmosphere..

The engagement, for which Council received recognition at the Victorian section of the Australian Institute of Planning awards (Promotion of Planning category), indicated the community wanted a higher standard of infrastructure and service.

The construction phase of the City Centre Renewal began in 2017 after Council committed \$5 million towards the project which was complemented by Victorian Government funding (\$5 million) and Commonwealth Government funding (\$5 million).



Warrnambool 2040 – the community plan

In 2017 Council embarked on an extensive community engagement with Warrnambool and region residents to develop a long-term community plan: Warrnambool 2040 or W2040 (Appendix 19).

The goals within the plan will ultimately be delivered by a range of partner organisations, including Warrnambool City Council.

Consultation for this long-term community plan involved about 3500 people and resulted in the adoption of four key “visions” for Warrnambool – each with a number of associated and ambitious goals.

These visions and their goals are:

1. Warrnambool will be a place where all people thrive

- A welcoming and inclusive city
- A safe and connected community
- Warrnambool’s people are healthy
- Value local Aboriginal identity and culture
- A learning community

2. Warrnambool will be Australia's most liveable regional city

- An affordable and accessible place to live for everyone
- Encourages and prioritises sustainable transport
- Well-connected outside the city
- Has accessible, high-quality public spaces and facilities

3. Warrnambool will be Australia's most resilient and thriving regional economy

- Embrace digital innovation and technological change
- Grow a resilient and diverse economy
- Foster a creative and collaborative culture
- Think globally

4. Warrnambool will be Australia's most resilient regional city

- Zero Warrnambool – innovative solutions for zero net greenhouse gas emissions
- Adaptable Warrnambool – adapt to impacts of climate change
- Wise Warrnambool – a wise city, that wastes not
- Natural Warrnambool – enjoy, love, respect and care for the natural environment
- Blue Warrnambool – water for life
- Green Warrnambool – a city in nature

Implementing initiatives to meet the goals identified in Warrnambool 2040 will require commitments from Council along with community partners. While some of the initiatives are areas in which Council is already active there will be costs associated with meeting a number of goals identified in W2040.

Sources: videos of engagement presentations by participants during phase two of the W2040 are available here:

Place - www.youtube.com/watch?v=00b0j1-sZjc

People - www.youtube.com/watch?v=3NDyGGARQdU&t=48s

Environment - www.youtube.com/watch?v=djcs4lapldY&t=118s

Economy - www.youtube.com/watch?v=DBk98zdFYaQ

Other W2040 engagement comprised:

Active hubs across 13 locations – 1,941 attendees

Long survey – 1,283 completed

Short survey – 496 completed

Conversation toolkits – 42 completed

W2040 website – 4,474 page views

Facebook – reached an audience of over 100,000

Fun4Kids “Future Lab” and Vacation Care Program workshops

Of particular relevance to the rates and services discussion the Warrnambool 2040 plan were that the community identified that it wanted Warrnambool to be Australia's most liveable regional city and included in its goals that the city should have “accessible, high-quality public spaces and facilities”.

Through the Warrnambool 2040 process the community indicated it wanted the city to be a “learning community” and identified as progress measure the construction by 2026 of a “new 21st century library and knowledge hub which provides opportunities for lifelong learning, equitable access to information, resources and technology.” In response to this and to the Beyond the Bell initiative Council lobbied – with South West TAFE - for external funding to help build a new library and learning centre. This effort was successful with the Victorian Government announcing it would provide a grant of \$16.5 million to go towards a new facility.

Warrnambool 2040 has also informed Warrnambool City Council's sustainability plan, Green Warrnambool, which includes an objective for Warrnambool to source 20 per cent of its city-wide energy from renewable resources; to be a city with zero net greenhouse gas emissions by 2040 and to have a fully connected and comprehensive pedestrian and bicycle path system throughout the municipality.

2018 Community Satisfaction Survey

In 2018 as part of the annual Community Satisfaction Survey, Council added an additional question: “how would residents prefer to address funding shortfalls?”

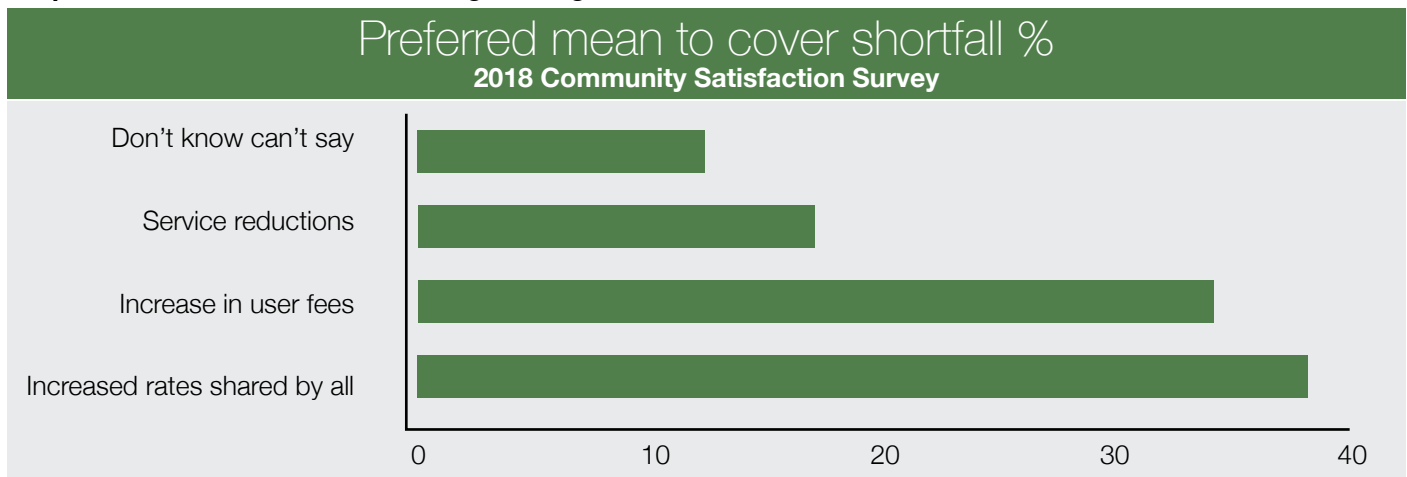
This is a very direct and significant question in relation to any proposed rate cap increases.

The response, detailed in the graph below.

The survey involves seeking responses from 400 randomly selected individuals.

The greatest proportion of respondents (38 per cent) stated that they would prefer a funding shortfall to be covered by an increase in rates to be shared by all ratepayers while (34 per cent) said they would prefer any shortfall to be covered by an increase in user fees. Just (17 per cent) were in favour of reducing services.

Graph 6. Preferred means of covering funding shortfall.



Safer boat launching

Extensive community consultation over the past decade has indicated a desire for safer boat launching facilities at the Port of Warrnambool. In 2015 a community survey indicated support for extensive work at the Port of Warrnambool that included a fully enclosed harbour with an estimated cost at that time of \$8 million. Council passed a motion that involved an upgrade of existing facilities (estimated cost at that time \$1.5 million), which would be a first step to a fully enclosed harbour, should that level of redevelopment be required (Appendix 20).

The boat ramp at the Port of Warrnambool was recently voted the worst in Victoria in a survey conducted by the RACV (www.racv.com.au/about-racv/our-business/media-releases/best-and-worst-boat-ramps-victoria.html). Council has twice unsuccessfully applied for funding to improve the boat ramp, improvements for which are detailed in the Warrnambool Harbour Master Plan adopted by Council in 2018 (Appendix 21).

Council has also identified that stabilisation work on the historic breakwater, built in the late 19th century, is required at an estimated cost of \$7 million.

Active Warrnambool

The sport and recreation strategy for Warrnambool, Active Warrnambool, was developed through an extensive community engagement process the first stage of which was aligned with the development of the long-term community plan, Warrnambool 2040, while the second stage involved five focus group sessions and a stakeholder meeting.

Through the strategy the community has identified key issues, opportunities and barriers to work through with the support of Council (Appendix 12 and 13).

These are

1. Understand the future needs and strategic provision of facilities (number, distribution, usage) for key sports.
2. There is a need to maintain the strong culture of involvement in sports clubs and participation within them and promote the benefits of Club membership as a mechanism to increase physical activity.
3. Continue to assist clubs to build their capacity
4. Consider options to assist and encourage clubs to be more inclusive of female participation
5. Identify and recognise the emergence and increase in popularity of emerging sports and activities that have not had a strong presence in Warrnambool.

6. There is a need to support increasing flexibility of programming to help over-come or ease the barriers to participation.
7. Investigate increasing mixed use of existing Reserves for social and non-competitive activities.
8. Improve connection to and between existing spaces and facilities.
9. Enhance appropriate neighbour-hood community infrastructure and its utilisation.
10. Provide neighbourhood parks and open space within walking distance of residential areas.
11. Review of current facility provision and sports participation levels reveal: demand for up to four additional soccer pitches by 2036 and support by clubs and other stakeholders for selected sites and facilities to undergo master planning processes in the next few years.
12. Consideration should be given to the open space facility provision for the future.
13. The protection and enhancement of key physical and environmental assets and provision of appropriate public access to waterways and coastal environments is needed.
14. Changing standards in facility pro- vision and their consequential impacts need to be considered.
15. Undertake an assessment of existing reports and master plans to consolidate outstanding actions that will be part of a prioritised list of projects.
16. There are a range of existing policies that require review or new policies required.
17. Council does not currently have a formal and consistent framework for requesting and spending of open space contributions.
18. Comparison of local participation data collected in 2013 and 2017 shows that, while facilities and infrastructure have been developed and improved over that time, responses indicate reduced participation and satisfaction in some areas. This may reflect an increase in participants' aspirations and perhaps a lack of awareness of new and enhanced facilities.
19. A planned approach to responding to and meeting the asset renewal gap will be critical for Council.
20. There is a need for council to invest in evidence-based development and enhancement of recreation and facilities and spaces.
21. Clarification of Council's role in recreation provision is needed to guide its responsibilities and ensure appropriate resources are provided for it.
22. The implementation of sustainable and effective facility management models that support community-based leadership should be considered.

Table 10. Renewal needs summary of Council's sport, recreation and open space assets:

Asset Type	No. Properties	No. Assets	Capital Replacement Value	Renewal Program Expenditure 2010-2017	Renewal Expenditure forecast 2018-28	Deferred Renewal
Sport and recreation buildings	40	183	\$68,175,732	\$3,322,951	\$5.7 million	\$836,000
Open Space (seating, boardwalks, fences, signs, etc)	133	1,663	\$8,685,955	\$1,899,630	\$867,000*	\$113,000*
Playgrounds	63	66^	\$6,830,000		\$1.35 million	Unconfirmed
Sports lighting	13	94	Data not available	No budget yet allocated	No budget yet allocated	Unconfirmed

Note: *Open Space Asset Audit currently being completed, ^includes centre based playgrounds

Council has responsibility for over \$83 million worth of buildings and infrastructure that provide for sport, recreation and physical activity purposes.

The goal of redeveloping Reid Oval as a premier regional sportsground has been carried over from the previous sport and recreation plan.

Play Space Strategy

Council is in the process of developing a Play Space Strategy.

Consultation so far – a survey which attracted 303 responses - has indicated the community has a strong desire to see the

continued upgrade and maintenance of play spaces. It also showed that the most visited play spaces were those which were more significant in size such as Lake Pertobe, Cramer Street and Woodford which featured very high use by the general public (Appendix 14).

Council currently provides 60 public play spaces in Warrnambool with a combined replacement value of \$8.6 million dollars. Currently Council spends \$138,000 per year on the renewal of play spaces which leaves a renewal gap of \$295,800 per year.

Green Warrnambool

Council's long-term sustainability and environment strategy is called Green Warrnambool (Appendix 22).

Adopted in September 2018, Green Warrnambool was developed in conjunction with Warrnambool 2040 and workshopped further with Council's Environment and Planning Committee which includes members of the community. It shares the vision of W2040 for Warrnambool to be the most sustainable regional city in Australia.

Green Warrnambool was developed alongside Warrnambool 2040 and contains six goals.

These are:

- **Zero Warrnambool** – we will have zero net greenhouse gas emissions.
- **Adaptable Warrnambool** – Council and its community will be prepared and resilient in a changing climate.
- **Wise Warrnambool** – we will send zero recoverable waste to landfill and reduce litter and pollution.
- **Naturally Warrnambool** – where we will enhance and protect our environment and biodiversity.
- **Blue Warrnambool** – we will ensure our water is protected, conserved and unpolluted.
- **Green Warrnambool** – our green spaces will be thriving and connected and our food sourced locally.

The actions are a combination of policy and planning documents, data collection and on-ground implementation actions with over 50 Council led actions and 40 community actions.

The targets are ambitious and it is acknowledged that meeting them requires a cultural shift in how we will live and develop as a city.

In response to the Green Warrnambool Plan Council intends to borrow in order to roll out an extended LED street lighting program that will cut greenhouse gas emissions, energy consumption and provide longer term financial savings to Council.

Lake Pertobe

Lake Pertobe is a 58ha adventure and nature park. Created in the 1970s it has grown to become immensely important to Warrnambool and is now a priority destination for locals and visitors. Through an extensive community engagement Council has prepared a detailed master plan for Lake Pertobe which aims to grow and enhance this renowned community space. The community engagement involved: 245 survey responses, 11 submissions, hundreds of conversations at Summer Night Markets, two focus groups with young people at Warrnambool College and interviews with stakeholders. Among the high or immediate priority works identified in the master plan with significant cost implications were:

- Construct a new toilet/change facility with showers and change rooms at McGennans Carpark to service all users of the foreshore area
- Identify appropriate locations and form for the provision of shade infrastructure in the reserve, particularly servicing the play areas.
- Install additional seating and picnic tables which meet the needs of all users (including some seats with arm rests, back rests and wheelchair accessible tables).
- Investigate feasible options for replacement of the swing bridge feature in Play Area 3.
- Construct new shared path across the southern side of Lake Pertobe Reserve to link all pedestrian crossing points on Pertobe Road as well as create raised crossing points
- Construct a new (shared) path to create pedestrian and cycle-friendly connections across the south west boundary of the reserve linking with path on the Northern side of Pertobe Road in 6.2.7.
- Design and construct an exciting, unique, inclusive, challenging and innovative playspace in Play Area 2 for 0-12 years
- Design and develop a diverse range of exciting, unique, challenging and innovative play for all ages by designating specific user groups for play area 1 and 3:
- Provide additional challenging adventure play opportunities in Play Area 1.
- Include additional inclusive play elements and improve accessibility in all Play Areas by removing barriers such as raised timber edges and sand soft fall and replacing with accessible pathways and surfaces as appropriate.
- Include and share stories about Lake Pertobe's heritage, indigenous culture, stormwater/drainage functions and environmental values through improvements, wayfinding, precinct names and other on-site information.
- Review access to the electricity supply for events and install access points in appropriate locations.
- Prioritise, design and cost all parking recommendations as detailed on the parking layout plan for Lake Pertobe.
- Extend and formalise the car park area next to the mini golf.
- Improve the vehicle parking area on the northwest side of Pertobe Road by sealing and line marking vehicle parking to maximise the spaces available near Events Area 1.
- Develop overflow parking for the foreshore area along Price Street.

Additional services – community response

Dedicated Food Organics Garden Organics (FOGO) service

Responding to a community desire to see greenhouse gas emissions lowered and to reduce the waste being disposed of in a landfill at considerable cost, Council moved to introduce a Food Organics Garden Organics (FOGO) collection.

The introduction of the FOGO service required an increase in the municipal waste charge.

Council's kerbside waste collection service generates in excess of 6,000 tonnes of waste each year, about half of which is FOGO material. The cost of sending this material to landfill is in excess of \$160 per tonne and the material is responsible for about a third of Council's greenhouse gas emissions.

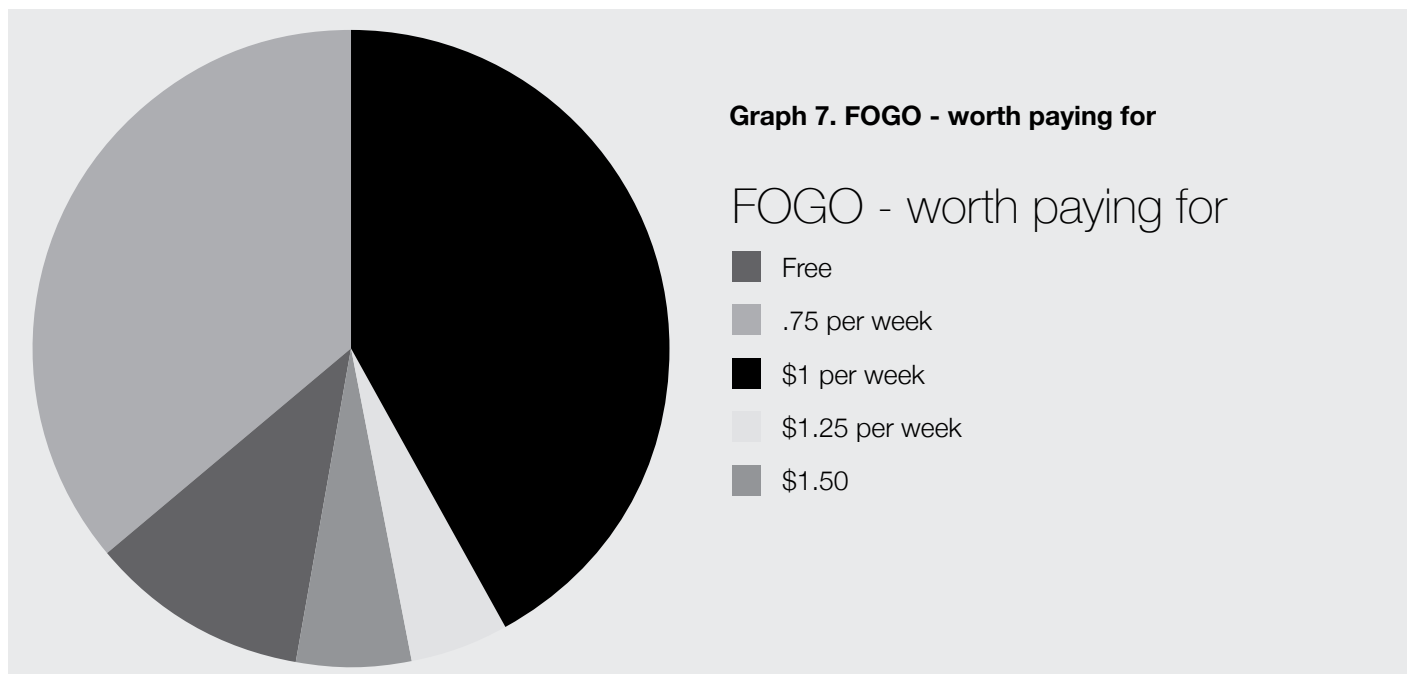
This would see the collection of FOGO material which would be composted and turned into clean, uncontaminated soil. The cost to transport, process and compost organic material and food waste is about \$55 per tonne.

Kerbside bin audits in Warrnambool had consistently shown that food waste comprised half of the weight of the domestic garbage bin.

The FOGO service, now being rolled out across Warrnambool, is one of the actions that will assist in achieving the goals identified in Warrnambool 2040 and Green Warrnambool plans.

The rollout began in March 2018 with a pilot project. In May 2018 surveys were distributed to 1,680 participating households, 427 responses were received.

More than 95 per cent of respondents said they wanted the FOGO service to continue and more than 50 per cent said the service was worth paying at least \$1 a week.

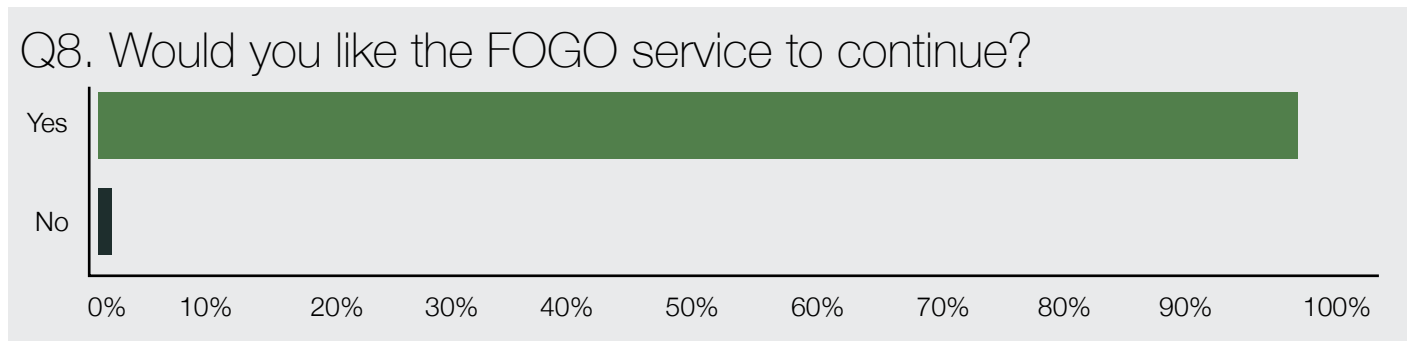


The survey shows the service achieved its objectives which included a reduction in waste being placed in garbage bins and 63% of all food waste from the kerbside collection was correctly placed in the FOGO bin.

Pre and post-trial audits showed that FOGO found in garbage bins reduced from 38% to 25.3% and the overall weight of FOGO in the garbage bin reduced by 13.5% or 1.5kg by weight.

The results from the FOGO pilot survey and bin audits show that a permanent FOGO collection is both viable, environmentally beneficial and is popular in the community.

The FOGO service is currently being rolled out across all of Warrnambool.

Graph 8. Preference for FOGO service to continue.

As a result of the survey response Council and the overall success of the trial Council has proceeded with the full rollout of the FOGO service across the municipality.

Cuts to services – community reaction

Security guards

Carefully considered cost cutting has in recent years been met with considerable opposition from the community. In developing the 2017-2018 budget Council made a decision to cease the funding of late night/early morning security guards at the Gilles Street taxi rank situated at the perimeter of Warrnambool's entertainment precinct.

The cost of this security measure, when first established some years ago, was shared between Council and contributions from several licenced venues. In 2010-2011 contributions from licenced venues ceased with Council then paying the entire cost.

In 2014 Council renewed the taxi rank with a safer design and the addition of CCTV cameras.

The decision to stop funding security staff at the rank generated considerable controversy and community opposition, with taxi drivers calling for a levy to help reinstate the service.

The decision featured prominently in the local newspaper, The Standard, with an editorial calling for the service to be provided by Council: "Surely the council can find \$30,000 in its \$81 million budget ...".

Sources: The Standard, June 23, 2017; The Standard, July 21, 2017; The Standard June 29, 2018.

After kinder care

With demand for Council's After Kinder Care program falling from 54 families in 2013 to 13 families in 2017 Council moved to consolidate the service.

This involved closing After Kinder Care services at two kindergartens and providing an alternative at other Council facilities.

Despite the clear fall in demand for the service Council was heavily criticised in the media for the decision and a group of parents challenged Council to demonstrate the financial case behind the move.

Source: The Standard, June 2, 2017.

<https://www.standard.net.au/story/4703852/councils-after-kinder-care-to-be-cancelled/>

Council efficiency and a higher cap as value for money

Over recent years Council has explored ways in which to make its operation more efficient – thereby achieving cost savings to avoid the need to seek a rate cap variation in the first three years of the Fair Go rates system.

Two efficiency reports are attached which provide details of the work Council has undertaken to become more efficient and improve services.

Council has made efforts to contain wages growth and over 2017-2018 Council's overall wages bill increased by less than 1 per cent.

Table 11. Wages growth - Councils & Other Organisations

Wages growth - Councils & Other Organisations	% Increase 2017-2018
State Government	11.20%
South West Health Care	8.00%
Glen Eira City Council	6.62%
Whitehorse City Council	5.61%
Wannon Water	5.50%
Brimbank City Council	5.47%
City of Port Phillip	4.50%
Darebin City Council	3.92%
Yarra City Council	3.45%
Banyule City Council	3.36%
Warrnambool City Council	0.98%

Council has a \$16.5 million backlog of renewal projects.

The increased rates will go towards eliminating the backlog, reducing the renewal gap and moving to a more sustainable model of renewal and maintenance.

The rates will also provide a saving with an increased capacity to carry out work in the short term to avoid escalating renewal costs and a requirement for more substantial work as assets deteriorate. An example of this is road resealing to maintain a road rather than deferring this work and being faced with a more costly road reconstruction.

The utilisation of rates is an efficient means of addressing a shortfall in asset renewal and for the funding of multi-generational assets.

Rates represent the single largest source of Council income and a small shift in this driver brings about an equitable distribution of the renewal burden compared to other income sources.

Council is facing unprecedented capital contributions for the upgrade of assets - a positive for the community - and an increase in rate revenue provides a long-term funding resource for the uplift and renewal of these assets.

Table 12. Warrnambool City Council's asset renewal requirement and renewal gap.

Asset Class	Renewal requirement	Funded renewal	% of renewal requirement funded	Renewal gap
Roads	\$9,144,001	\$2,562,719	28%	\$6,581,282
Bridges	\$3,333,797	\$166,577	5%	\$3,167,220
Pathways	\$1,306,956	\$291,339	22%	\$1,015,617
Buildings	\$5,582,000	\$1,193,000	21%	\$4,389,000
Drainage	\$1,021,000	\$73,664	7%	\$947,336
Open Space	\$1,065,000	\$135,000	13%	\$930,000
Plant & Fleet	\$1,059,000	\$1,059,000	100%	\$ -
TOTAL	\$22,511,754	\$5,481,299	24%	\$17,030,455

Figures current at March 2019.

Unrepresented in the table above are costs associated with information technology infrastructure replacement and renewal, estimated at between \$3 million to \$5 million.

The table below describes the timeline over which Council plans to reduce the renewal backlog.

Table 13. Council's forecast for reducing the renewal backlog.

Asset Renewal Funding	2019/20 \$'000	2020/21 \$'000	2021/22 \$'000	2022/23 \$'000	2023/24 \$'000	2024/25 \$'000	2025/26 \$'000	2026/27 \$'000	2027/28 \$'000	2028/29 \$'000
Annual Renewal Requirement	6,000	6,180	6,365	6,556	6,754	6,956	7,164	7,379	7,601	7,829
Renewal Backlog	16,500	16,350	15,525	14,405	13,252	12,065	10,841	9,581	8,283	6,946
Total Renewal Requirement	22,500	22,530	21,890	20,962	20,005	19,020	18,006	16,960	15,884	14,775
Current Annual Funding	5,500	5,665	5,835	6,010	6,190	6,376	6,567	6,764	6,967	7,176
Rap Cap Variation Allocated to Renewal	650	1,340	1,650	1,700	1,750	1,803	1,857	1,913	1,970	2,029
Total Funding Available	6,150	7,005	7,485	7,709	7,941	8,179	8,424	8,677	8,937	9,206
Asset Renewal Shortfall	16,350	15,525	14,405	13,252	12,065	10,841	9,581	8,283	6,946	5,570

In addition to the figures detailed above, Council is also required to contribute renewal investment towards assets it does not own including the Port of Warrnambool, which contains a boat launch, recently voted the worst in Victoria (RACV survey <https://www.racv.com.au/about-racv/our-business/media-releases/best-and-worst-boat-ramps-victoria.html>).

Rectification of the boat launching facilities will require a contribution from Council of \$640,000 towards an overall project cost of \$3.2 million.

While the figures in the table above describe the renewal gap and backlog, the evidence from consultation with the community is that there is a significant enhancement of these facilities required (Appendix 16). Examples include the Reid Oval redevelopment, where a ground currently used by the community will be upgraded to a standard that will allow for the hosting of AFL practice matches and other regional fixtures.

The Reid Oval surface will be renovated, a practice oval will be established to reduce use and wear of the ground, other reserves will be upgraded to accept overflow load as a result of the reduced usage of Reid Oval because of its changed purpose.

Council recognises that financial sustainability is an issue involving more challenges than sustainable asset renewal. It involves a range of variables and Council is committed to introducing a range of measures and sees a rates variation as being the most effective lever to resolving the renewal backlog compared to other levers available to Council.

Council will continue to seek internal efficiencies and this was a directive from the community that emerged during the consultation around a rates variation. The consultation showed that of all the Council service areas, infrastructure and asset renewal were those for which the community was more willing to accept a rate increase.

Based on Council's current financial position, Council would be unable to address the asset renewal backlog and this problem would grow over time, putting further pressure on services and raising the risk of infrastructure failure and shut-

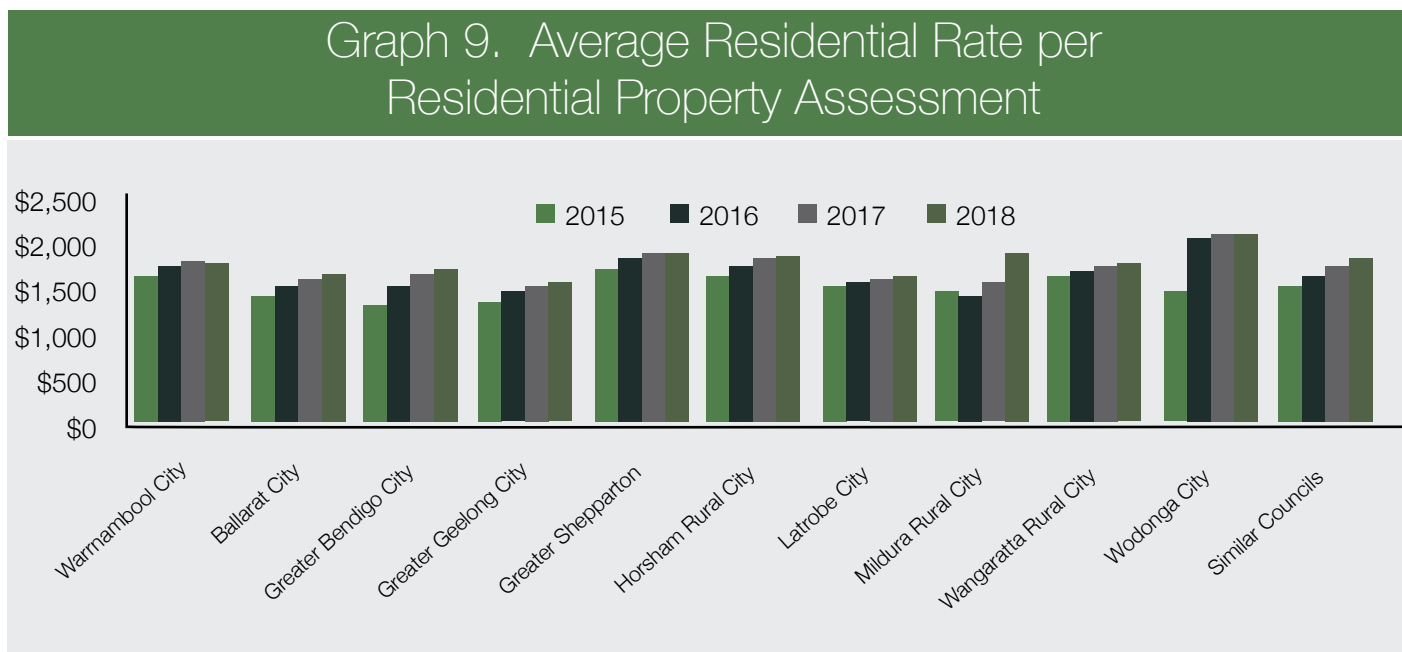
down.

Council wants to act now to avoid the prospect of wholesale cuts or reductions in services which the community has indicated it does not want to see. Council intends to review its services however this will be measured and evidence-based. Failing to act will see the growth of the asset renewal backlog accelerate.

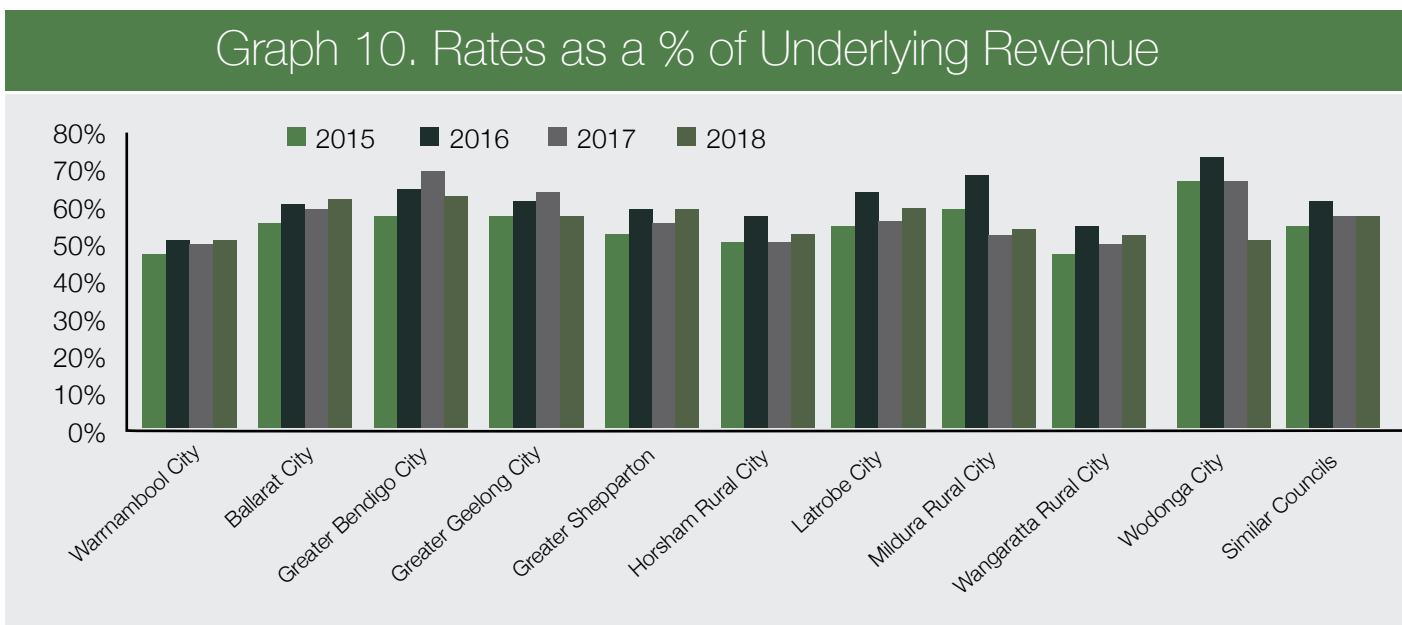
Council has considered the issue of the community's capacity to pay. It acknowledges that this is an additional burden, particularly for those on fixed incomes. Currently pensioner discounts for rates comprise 2,782 which is 16 per cent of the 17,362 rates assessments. On average, the impact of the variation across all rateable assessment will result in an increased rates payment of \$37.46 in the first year, \$39.62 in the second year and \$41.87 in the third year. The average residential property value is currently \$344,179 and this would mean the increase in year one would equate to \$31.18, in the second year it would be \$32.58 and in the third year, \$34.05.

Public housing tenants are exempt from rates.

Part of Council's considerations around capacity to pay have involved benchmarking against similar Councils. The Know Your Council website shows the following:



The graph below demonstrates that Warrnambool's rating effort as an overall contributor to revenue is lower than all other Victorian regional centres.



Reprioritising expenditure and alternative funding options

Community feedback has informed a wide range of Council plans and strategies and this has in turn led to a prioritising of expenditure and effort.

Council has moved to increase user fees to help cover costs and to reduce the impact to the wider ratepayer base of providing particular services.

These include:

Parking: revenue from paid parking is invested in car park maintenance and expansion and maintenance of the foot-path network. Revenue has increased with a rise in fees couple with a more efficient system. Total parking income has grown from under \$1.2 million in 2013-2014 to in excess of \$1.4 million in 2017-2018. This includes significant losses as a result of free parking initiatives to support businesses during the \$18 million city centre renewal project.

Pet registration: fees have increased to make a greater contribution to the operation of the RSPCA animal shelter. The cost to operate the animal shelter increased by more than 300 per cent which necessitated an increase in pet registration costs. Council previous provided an annual contribution to the RSPCA of \$112,000. This figure rises to more than \$360,000 in 2019-2020 and as a result the cost is being passed on to pet owners in the form of increased registration fees. In 2019-2020 a sterilised dog now costs \$70 per year to register, compared with \$54 in 2018-2019 year, while a sterilised cat costs \$59, up from \$43.

Itinerant trading: Council has moved to recover costs of waste management in relation to itinerant trading, in particular markets. Proposed itinerant trading fees also address issues around equity with private businesses operating for profit on public land while other businesses pay rates, rent and associated costs with upkeep of their business premises.

Sportsgrounds: Council is moving to a greater recovery of costs related to management and maintenance of sports-grounds. The intention of the fee structure is to move to a local government average of 75 per cent subsidy to 25 per cent user contribution. We are part-way through a fee restructure that will see fees increase by 100 per cent over four years.

Fees in some Council operations have remained unchanged or increased marginally following reviews. Competition has been a key factor in constraining fee increases in some areas along with capacity to pay based on the users.

South-West Victorian Livestock Exchange: fees contained to ensure competitiveness following the emergence of a rival saleyards at nearby Mortlake.

Lighthouse Theatre: faces competition for discretionary spending from nearby entertainment providers.

Archie Graham Community Centre: provides programs targeted at an older or more disadvantaged members of the community who have a limited capacity to pay.

AquaZone: fees are aligned with comparable industry peers. This has become increasingly competitive with a number of private gyms and swim schools opening over the past five years.

Alternative funding options including alternative service providers are already used by Council where appropriate. This includes the provision of:

Waste management: Council puts out to tender the collection and processing of waste, recyclables and FOGO. This is cost-effective with the financial impact on Council of owning and maintaining a fleet of trucks greater than tendering out the service.

Road resealing: outsourcing this periodic work means that Council does not have to maintain a work force, plant and equipment across the whole year. Council has also partnered with Corangamite Shire to negotiate savings through the delivery of a shared road resealing program.

Shared services: Council has embarked on a shared services project with the neighbouring municipalities of Moyne and Corangamite.

The project, which has an initial focus on shared information technology services, has the potential to offer savings to all three municipalities. Council is seeking funding from the Rural and Regional Council Transformation Program (RCTP).

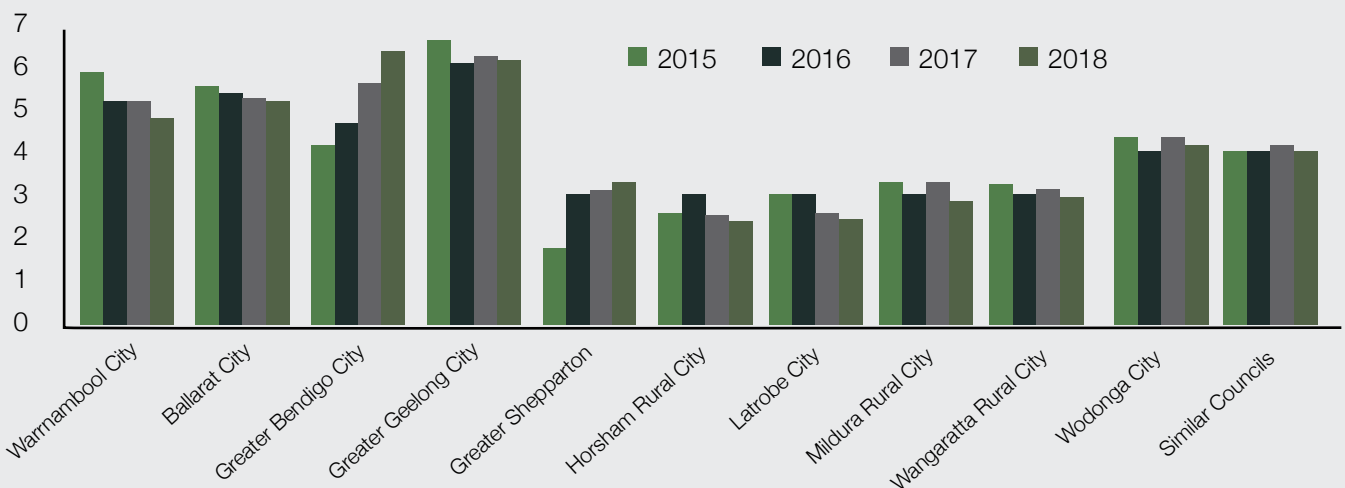
The business case is outlined in the graphic below:

Figure 1. ERP shared service business case.

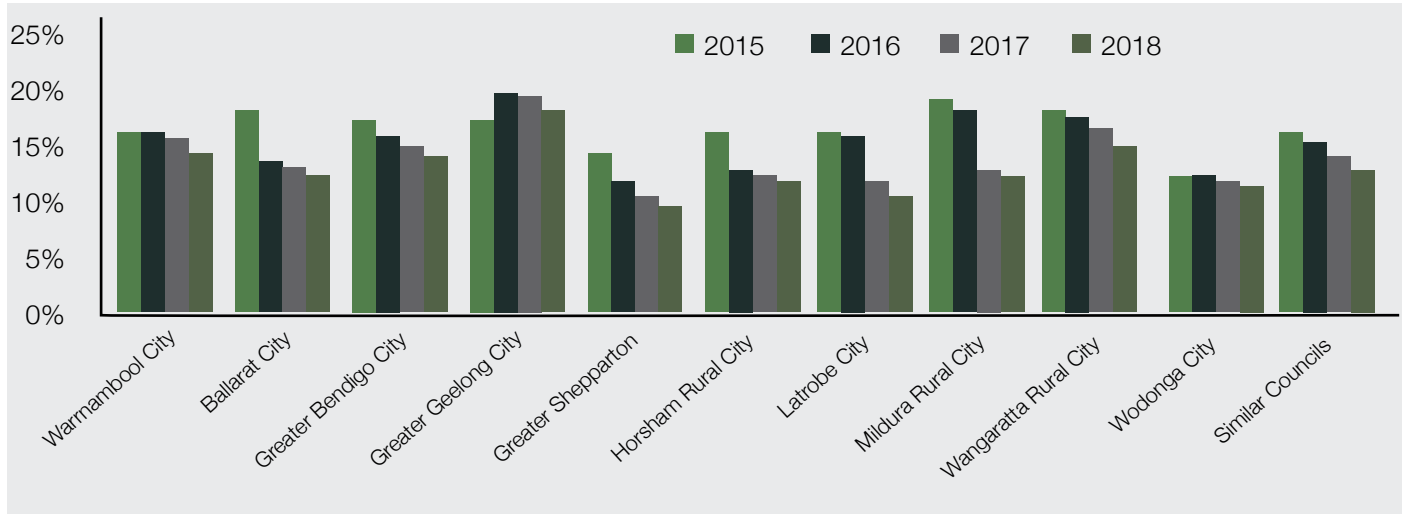


Shared library: Council, with the South West TAFE, successfully applied for funding to build a new library (\$16.5 million) and community learning space. This project included a detailed feasibility study that examined the need for a new learning centre and library to address issues including below average education attainment levels. The current library is one of the most valued services Council offers and has a membership exceeding 13000. It has high utilisation rates with library resources borrowed an average of 4.72 times compared to the similar council average of 4.04 (Know Your Council data).

Graph 11. Number of times a library resource is borrowed



Graph 12. Percentage of active library members within the municipality



The shared library, once constructed, will leave Council with higher costs through an expanded library program.

It is likely the larger library, with a proposed floor area more than four times the existing library, will have higher operating and energy costs. Council has estimated the impact will be an additional impact of \$500,000 per annum from 2021-2022, which will mean Council will provide a total annual library subsidy of \$1.4 million, a figure which has been benchmarked against similar libraries.

Council has a long history of successfully accessing community funding and working with philanthropic trusts to obtain the best possible project outcomes. Examples of this include the \$10 million redevelopment of the Lighthouse Theatre which included a philanthropic contribution of \$850,000; the redevelopment of Aquazone (\$660,000); Warrnambool hockey fields (\$570,000); the Warrnambool Art Gallery collection is substantially backed by philanthropic trusts and private individuals; and a netball pavilion (\$75,000) at the premier sportsground, Reid Oval.

Into the future philanthropic trusts have indicated a preparedness to support further developments at the Warrnambool Art Gallery, soccer fields and potentially the development of facilities for women in sport.

Loan funding

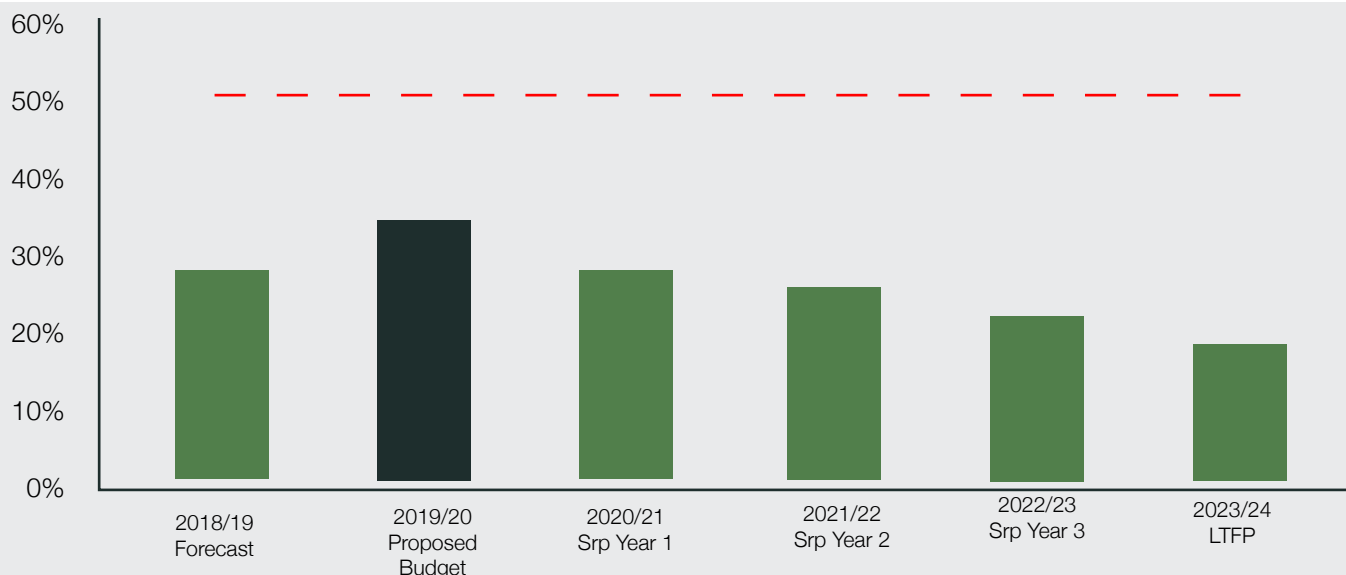
Council's borrowings sit at \$10.5 million and are forecast to peak at \$13.2 million as outlined in the Strategic Resource Plan.

Council has adopted Borrowing Strategy appendix (Appendix 23). This outlines the criteria for which council has and will borrow. This strategy sets out the following prudent financial principles:

Borrowing Policy Principles:

- No borrowings for operational purposes.
- Borrow for major infrastructure projects which have long useful lives thereby applying equity of burden across ratepayers of different generations who would enjoy the benefits of the asset.
- Consider borrowing for unforeseen one-off major impacts (i.e defined benefits superannuation calls, natural disasters) that may have a generational impact.
- Priority for projects with above loan repayment returns – These are projects which are capable of generating new cash inflows, or reduced cash outflows, which are greater than the principal and interest cash flows associated with a loan.
- Loan repayments of principal and interest to repay debt over its loan term.
- Maintain a prudential borrowing ratio (debt/rate revenue) of no greater than 50%.
- Maintain a debt servicing ratio (loan repayments/rate revenue) of no greater than 8%.
- All Victorian Auditor General Office VAGO Sustainability indicators relating to debt which a sustainable rating.
- Council will secure its loan funds through competitive tendering, either as a standalone tender or through collaborative tendering arrangements approved by the Minister for Local Government.

Graph 13 . Prudential Debt Ratio (debt to rate revenue)



An example of where Council is borrowing to invest in intergenerational infrastructure is the Reid Oval redevelopment. Council engaged in a competitive process to secure a \$3 million low interest loan from the Victorian Government's Department of Treasury and Finance.

Council will also borrow \$1.4 million to invest in environmental initiatives which will lower Council's greenhouse gas emissions and reduce energy costs.

Service reduction

Council has consistently responded to the feedback from the community that they value our current services and are aspirational to grow the quality of the services that are available to the community.

Security guards

In developing the 2017-2018 budget Council made a decision to cease the funding of late night/early morning security guards at the Gilles Street taxi rank situated at the perimeter of Warrnambool's entertainment precinct. The cost of this security measure, when first established some years ago, was shared between Council and contributions from several licenced venues. In 2010-2011 contributions from licenced venues ceased with Council then paying the entire cost.

In 2014 Council renewed the taxi rank with a safer design and the addition of CCTV cameras. The saving to Council was \$30,000

After kinder care

With demand for Council's After Kinder Care program falling from 54 families in 2013 to 13 families in 2017 Council moved to consolidate the service.

This involved closing After Kinder Care services at two kindergartens and providing an alternative at other Council facilities. This saved approximately \$60,000.

Building services

Council cut commercial building surveyor services as it had become unviable. This was an attempt to create an income source that proved unable to compete with the private sector. This saved approximately \$150,000.

Customer service

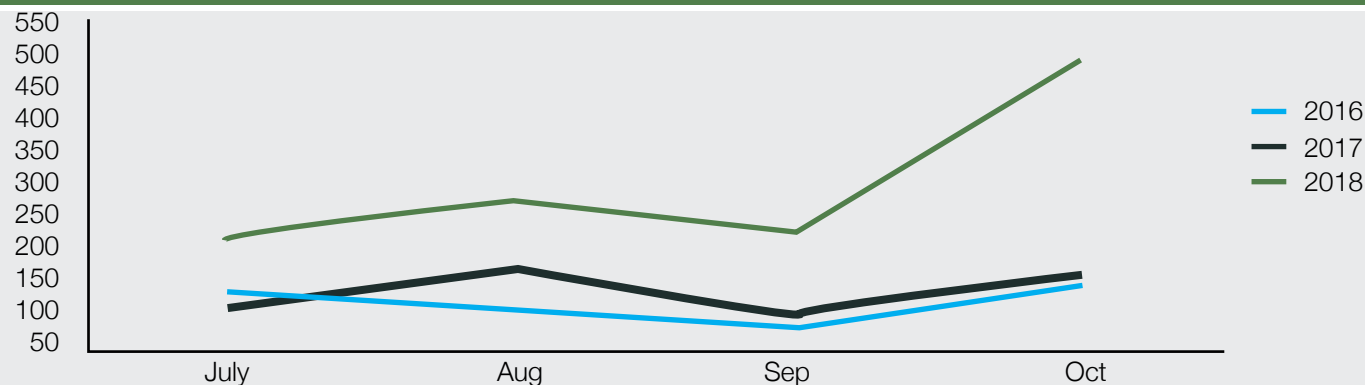
A decision was made to reduce the level of customer service with the departure of a staff member from the customer service team who was not replaced.

The saving to Council was \$70,000.

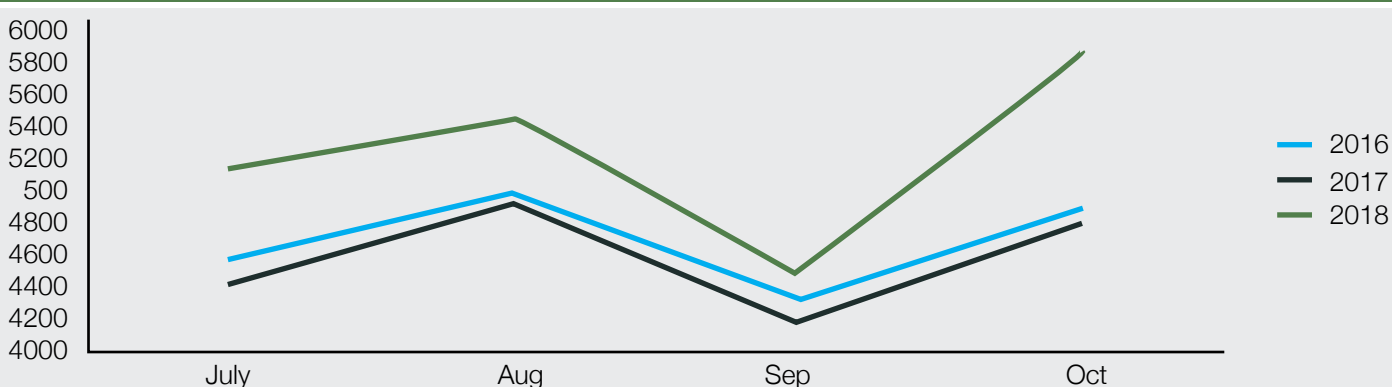
The impact on customers has meant that more calls are not being responded to and customers are waiting longer to have their phone calls. Customers are also calling back more frequently.

The impacts are detailed in the graphs below.

Graph 14. Abandoned calls



Graph 15. Calls received



Fun4Kids and events strategy

This national award-winning festival ran for 19 years. In its final five years it suffered a marked decline in attendances to the point where patronage was less than half the level at its peak.

Council made a decision to cease the subsidy of the festival - \$450,000 – and redirect this funding towards a new strategic approach around event attraction with more events across the calendar year.

This has brought about a more effective use of events and promotional funding that has translated to a greater attendance at a range of different events and increased spending in the city.



The impact of one new event, Oktoberfest, is detailed in the increased retail spending graph below:

Table 14. Impact of Oktoberfest 2018 – retail spending in Warrnambool

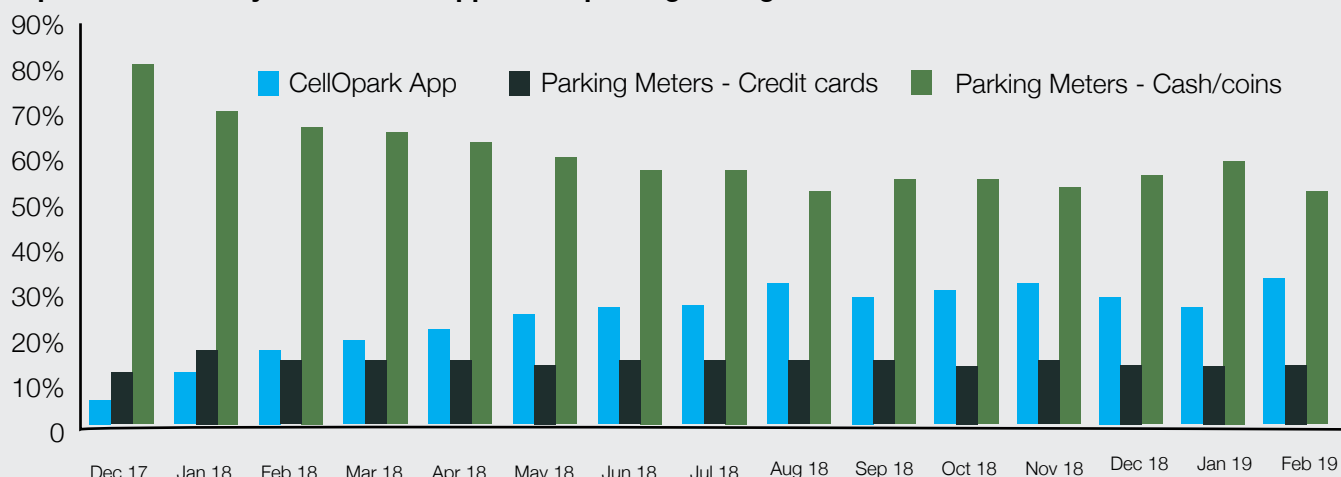
	Friday		
	2016-2017 average \$ '000	2018 \$ '000	%Trend
Dining and Entertainment	433	606	40
Department Stores	218	283	30
Special and Luxury Goods	217	257	18
Specialised Food Retail	274	312	14
Grocery/Supermarket	372	415	12
Clothing	150	158	5
	Saturday		
	2016-2017 average \$ '000	2018 \$ '000	%Trend
Dining and Entertainment	408	610	50
Grocery/Supermarket	371	432	16
Department Stores	241	266	10
Specialised Food Retail	255	274	7
Clothing	144	149	3
Special and Luxury Goods	247	254	3
	Sunday		
	2016-2017 average \$ '000	2018 \$ '000	%Trend
Dining and Entertainment	249	350	41
Special and Luxury Goods	73	101	38
Clothing	33	41	24
Grocery/Supermarket	326	397	22
Department Stores	206	208	1
Specialised Food Retail	170	171	1

Efficient parking

A more automated parking system that encourages payment via app or credit card has meant that less time is required to collect coins from parking meters. This has allowed council to reduce Local Laws personnel providing a saving to Council of about \$80,000 along with savings in peripheral costs such as paper parking tickets. This has allowed Local Laws staff to focus efforts on compliance.

Since the introduction of the new parking system cash transactions have gone from almost 100 per cent down to just over 50 per cent.

Graph 16. Move away from cash to app-based parking management.



Childcare restructure

In response to falling revenue the administration of childcare was restructured. This has provided a saving of \$100,000.

Enterprise Agreement/wages growth

Council is currently negotiating a new Enterprise Agreement. The current strategic resource plan assumes an increase of 1.5 per cent per annum over the next three years, well within the expected CPI range.

While negotiating in good faith, Council is aware its long term strategic resource plan is predicated on a containment of wages growth and regardless of the outcome of the agreement, Council is committed to the 1.5 per cent figure as a strategic objective. Council has achieved this over 2017-2018 with wages growth of 0.98 per cent.

Further operating efficiencies are described in more detail within the attached efficiencies reports.

Deferral of work

Council has to a large degree reprioritised efforts and has either stopped or deferred some work such as the removal of asbestos from ageing buildings, non-replacement of light poles at sports grounds. These works are contained within the \$16.5 million asset renewal backlog. (Appendix 19).

Divestment of Council assets

Over an extended period of time Council has reviewed its assets, including land surplus to need, and over recent years has sold several parcels of land. Recent analysis has shown Council that there is now a limited residual surplus land supply. Council is looking at up to five parcels of land and is going through a process with the community to ascertain whether these assets could be sold.

Airport landing fees

The community has asked Council to consider introducing user fees, which are commonly applied at other similar airports. Council is currently reviewing whether fees at the airport are feasible.

Boat launching fees

The implementation of boat launching fees is not viable given the current state of boat launching facilities. This would be reviewed in the event of an upgrade of the boat launching facilities.

Inability to access government funding

In a rate capped environment Council has a diminished capacity to access government grants which require matching or substantial contributions from Council. Council received Victorian Government funding through the Pedestrian Safety Casualty Area program. Council then diverted funding (\$750,000) from existing renewal priorities in order to accept this state funding opportunity.

Similarly, Council redirected funds from its open space, pathways and buildings renewal program to match Federal Government Building Better Regions grant (\$1.45 million) for the implementation of the first stage of the Lake Pertobe Master Plan.

The City Centre Renewal, which attracted combined funding of \$10 million from Victorian and Commonwealth governments, required a matching commitment from Council which was drawn from a range of Council programs including drainage funds, footpath and road renewal programs. This project became Council's number one priority.

Council made a decision to return funding (\$600,000) to the Victorian Government for the upgrade of the Zeigler Parade Bridge at Allansford because the overall project costs were beyond the financial capacity of Council to fund at this point. Remedial works were completed to make the bridge safe – with a decreased load limit. The project has been deferred. Council was unable to make the required contribution towards the upgrade of Reid Oval, to which the Victorian Government has committed \$7 million, and has obtained a \$3 million low interest loan through the Department of Treasury and Finance to meet this obligation.

Public-private partnerships is a funding alternative being considered by Council.

The 2014 master plan for Flagstaff Hill Maritime Village references a proposed model that includes a public-private partnership with investment into commercial activities on the site, situated on Crown Land. This was reinforced through an investment logic mapping exercise with the Council in 2018.

The fact that Flagstaff Hill is Crown land adds significantly to the complexity of any public-private partnership arrangement, as most options would involve a long-term lease, rather than a land transfer or ownership of the site.

Council acknowledges that a restructure and organisational change would have cost implications in the short-term before any benefits are realised in future years.



Long-term strategy and financial management policies

The variation to the rate cap was flagged in Council's 2019-2022 Strategic Resource Plan (Appendix 24) which was released to the community for comment as part of the Budget process (Appendix 25). Council did not receive any formal submissions in response to the proposed variation.

Council's Rating Strategy also considers the equitable distribution of the rates burden (Appendix 26).

Council's Long-Term Financial Plan forecasts financial outcomes for the next decade with and without a higher cap. The higher cap will allow Council to reduce its asset renewal gap from \$16.5 million to under \$6 million.

The decision to include a variation in the Strategic Resource Plan was made to meet the aspirations and objectives of the Council Plan and more recently the long-term community plan, Warrnambool 2040.

The Council Plan contains five key objectives, each of which has accompanying objectives and supporting documents. The rate cap environment has implications for each of these objectives while a variation to the cap would enable the delivery of the Council plan objectives.

The Council Plan objectives and strategies are:

Objective 1 - Sustain and enhance the natural environment

- a. Protect and enhance our waterways, coast and land
- b. Commit to being a carbon neutral organisation by 2040
- c. Invest in climate change preparedness
- d. Encourage environmentally sustainable business
- e. Review options for managing waste
- f. Educate the community on Council's sustainability initiatives
- g. Partner with the community on local sustainability projects

Objective 2 - Foster a healthy city that is socially and culturally rich

- a. Promote healthy lifestyles
- b. Seek equity, access, safety and inclusion for everyone
- c. Increase community health and social connections
- d. Encourage and support participation in sport, recreation and physical activity
- e. Encourage and support more lifelong learning
- f. Engage a broader range of people in cultural activities
- g. Actively acknowledge local Aboriginal culture
- h. Increase participation opportunities for disadvantaged members of the community

Objective 3 - To maintain and improve the physical fabric of our city

Which will be achieved through the following strategies:

- a. Build better connections for cyclists and pedestrians
- b. Create a more vibrant city through activating high quality public places
- c. Build infrastructure that best meets current and future community needs
- d. Enhance movement in and around the city
- e. Maintain and enhance existing Council infrastructure
- f. Advocate for better regional connections

Objective 4 - Develop a modern economy with diverse and sustainable employment

- a. Grow the city's population through local economic growth
- b. Encourage more sustainable local business
- c. Enhance the visitor experience
- d. Advocate for and improve infrastructure including transport, services and digital infrastructure
- e. Create stronger links between education providers, business and industry

Objective 5 – Practice good governance through openness and accountability

- a. Strategic Resource Plan.
- b. Annual Budget.
- c. Council Plan.
- d. Community Plan.
- e. Reporting to the community.
- f. Provision of opportunities for the community to actively participate in Council's decision-making through effective

- promotion, communication and engagement.
- g. Develop policies, strategic plans and processes to address local and regional issues, guide service provision and ensure operational effectiveness.
 - h. Ensure financial sustainability through effective use of Council's resources and assets and prudent management of risk.
 - i. Deliver customer-focused, responsive services.
 - j. Foster an encouraging and positive staff culture.

Warrnambool 2040

The Warrnambool 2040 community plan contains a vision for Warrnambool to be Australia's most liveable city, with the built environment being a key part of this vision.

The plan contains the following relevant goals:

- Warrnambool will be an affordable and accessible place to live for everyone
- Warrnambool encourages and prioritises sustainable transport
- Warrnambool is well-connected outside the city
- Warrnambool has accessible, high-quality public spaces and facilities

The proposed application of the increased rate revenue would be invested in asset renewal in years one and two and in year three would be split between asset renewal and the increased operating costs of the new library.

To support the strategic alignment Council has developed a range of plans and policies which address the maintenance of assets and maintaining and improving the physical fabric of the Warrnambool.

These include:

Asset Management Strategy

Strategy purpose: to provide a focus on requirements necessary to implement Council's Asset Management Policy. The Strategy defines key objectives and outlines the framework for making sustainable, consistent and financially sound management decisions for all Council owned or managed assets. Individual asset management plans for each asset class are required to implement the Policy in accordance with the Strategy (Appendix 27).

The Asset Management Policy

The purpose of this policy is to ensure Council manages and provides assets in a sustainable manner in line with the required levels of service based upon the vision of the adopted Council Plan. The Policy is implemented through Council's adopted Asset Management Strategy (Appendix 28).

The Port of Warrnambool Asset Management Plan

Plan purpose: Council recognises that this plan is the fundamental driver of services that impact directly on stakeholders. A long-term planning approach is considered necessary given the large capital and operating expenditure expected, the long lives of the assets and the long lead times involved in planning for upgrades, replacements and the purchase or building of new assets. The sequencing and timing of works are developed through discussions with key stakeholders (Appendix 29).

The Community Services Infrastructure Policy

Policy statement: Council will plan, advocate for and work with the community to ensure the provision of accessible, multi-purpose, and shared community services infrastructure delivered in partnership with other levels of government and community stakeholders (Appendix 30).

Municipal Road Management Plan

Plan purpose: The purpose of the Plan is to establish a management system for Council for the discharge of its duty to inspect, maintain and repair its public roads based on policy and operational objectives as well as available resources. It also sets the relevant standard in relation to discharge of duties in the performance of those road management functions (Appendix 31).

Pathway Asset Management Plan

Plan purpose:

- to give effect to asset management and strategic objectives as outlined in related documents;
 - demonstrate responsible stewardship of pathway infrastructure;
 - manage the risks associated with the service delivery of pathways;
 - provide input into the long term financial planning for pathway infrastructure;
 - support community engagement to determine suitable service delivery requirements;
 - optimise spending on pathway infrastructure by taking a whole of life approach;
 - guide the development of maintenance practices; and,
 - drive continuous improvement.
- (Appendix 32)

Bridge Asset Management Plan

Plan purpose:

- give effect to asset management and strategic objectives as outlined in related documents;
 - demonstrate responsible stewardship of bridge and major culvert infrastructure;
 - manage the risks associated with the service delivery of bridges and major culverts;
 - provide input into the long term financial planning for bridge and major culvert infrastructure;
 - support community engagement to determine suitable service delivery requirements;
 - optimise spending on bridge and major culvert infrastructure by taking a whole of life approach;
 - guide the development of maintenance practices; and,
 - drive continuous improvement.
- (Appendix 33)

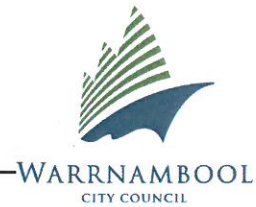
Warrnambool Floodplain Management Plan

Plan purpose: The flood risk in the built environment of the Council region needs to be managed. The issues stemming from changing climate and expanding urban environments cannot be avoided. It is important to have a clear direction for interventions aimed at maintaining and enhancing the natural and flood conveyance function of the region's floodplains. These interventions represent investments that are focused on the most benefit for the majority of Warrnambool's population now and into the future.

The Plan establishes the strategic and historic context for Council's floodplain management agenda. It explores the current situation in relation to available information, emerging issues and future actions. This background, along with stakeholder engagement, community consultation and use of a multi-criteria assessment all combine to establish priority actions for WCC and its partners to address over the planning horizon (2018-23) (Appendix 34).

CERTIFICATION STATEMENT

Warrnambool City Council



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

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

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

Signed:

A handwritten signature in black ink, appearing to read "Peter Schneider", written over a horizontal line.

Peter Schneider
Chief Executive Officer
Warrnambool City Council

29th March 2019